JAMAICA PUBLIC DEBT ANNUAL REPORT 2013 AND MEDIUM-TERM DEBT MANAGEMENT STRATEGY

For the period 2013/2014 – 2015/2016

Ministry Paper No.

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ACKNOWLEDGEMENTS

The Government of Jamaica has embarked on a series of reforms to put the debt on a sustainable path over the medium term. One such reform is to strengthen public debt management capacity within the Debt Management Branch.

In this inaugural publication of the Jamaica Public Debt Annual Report 2013 and the third Medium-term Debt Management Strategy (MTDS), using the Toolkit developed by the World Bank and the IMF, I would like to thank the staff of the Debt Management Branch for their contribution to the process.

I would also like to express particular thanks to the Deputy Financial Secretary, Economic Management Division, Miss Darlene Morrison, and Debt Management Consultant, Mrs. Michele Robinson for their support, and guidance which contributed to the content of the publication.

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INTRODUCTION

During FY 2012/13, public debt management operations were conducted in a challenging global and domestic economic environment. Internationally, the slow pace of global economic recovery following the global financial crisis and the deep debt crisis in Western Europe saw a retreat to safety among global investors. Regional developments such as bond payment defaults by Belize and Grenada and ratings downgrades of a number of market-access countries including the Bahamas, Barbados and Grenada heightened nervousness about emerging market issuers, including Jamaica. Marked declines in external loan disbursements to Jamaica impacted debt management operations and influenced funding decisions made during FY 2012/13.

Continued high commodity and energy prices had significant and adverse effects on Jamaica's external accounts. Jamaica's external current account deficit, although improving, remained in double digits, recording 12.8% of GDP at the end of FY 2012/13. Exacerbating the performance in the external accounts was the performance of the financial accounts, underscored by the considerable decline in external inflows. These developments were reflected in the marked decline in the country's net international reserves over the period. Net international reserves amounted to US$0.9 billion at the end of March 2013 or 11.7 weeks of "goods" imports compared to US$1.8 billion or 17.6 weeks of "goods" imports a year earlier.

Locally, economic activity remained weak and, in real terms, the economy contracted by 0.4%. Fiscal performance generating a fiscal deficit of 4.0% of GDP and amortization equivalent to 6.5% of GDP accounted for the continued high overall financing requirement. With limited external financing available, in part due to the high premiums attached to international capital market financing and limited inflows from official creditors, heavy reliance on the domestic market for financing persisted during FY 2012/2013.

Protracted discussions with the International Monetary Fund (IMF) also had a significant impact on debt management operations over the fiscal year. Market concerns regarding the non-finalisation of an IMF arrangement heightened anxiety about the increasing fiscal burden of the debt and the Government's ability to satisfy its financing requirements. With wavering domestic market sentiment towards Government securities, investors increasingly sought to manage their positions by seeking to invest in shorter-term, variable-rate instruments. Implementing the medium-term debt management strategy amidst these market sentiments proved challenging over the fiscal year.

Despite the less-than-favourable economic environment, the Government remained aggressive in pursuing its medium-term debt management strategy and implementing debt management reforms. A key element of the Government's debt management strategy was to cost effectively raise the requisite financing and to realign the debt portfolio to minimize risk exposures, especially the impact of adverse interest rate and exchange rate changes as well as refinancing risk. An external debt share of over 45% of total public debt as well as the presence of US dollar debt instruments in the domestic debt portfolio has also left the debt portfolio with high exposures to adverse movements in foreign exchange rates. Short-term debt instruments, such as Treasury bills, in addition to a significant share of long-term domestic debt instruments due to mature in 12 months or less, also increased the portfolio's exposure to rollover risk.[1] –

Despite market pessimism and an unfavourable economic environment, the implementation of the FY 2012/2013 medium-term debt management strategy met with a fair measure of success. The Government was able to satisfy its financing requirement for the financial year within the benchmark cost range established in its FY 2012/2013 medium-term debt strategy. The average cost of borrowing was 7.4%, 10 basis points below the strategic benchmark of 7.5%. While the Government found it difficult to contain interest rate risk, the 62.8% strategic benchmark established for overall fixed-rate debt was achieved. Managing exchange risk also proved difficult and the share of foreign currency debt in the domestic portfolio amounted to 19.9% in FY 2012/2013.

With the bunching of maturities and the increasing cost of servicing the domestic debt the Government took the decision to execute a comprehensive domestic liability management exercise in February 2013. The National Debt Exchange (NDX), launched on February 12, 2013, was a key prior action required by the International Monetary Fund in order to conclude arrangements for a 4-year Extended Fund Facility (EFF). The NDX was designed to meet twin

[1] the risk that debt would have to be refinanced at higher market rates - and the added possibility of higher borrowing costs

objectives. The first was to achieve substantial annual interest savings amounting to 1.25% of GDP over the medium term allowing for an equivalent annual debt reduction amounting to 8.5% of GDP over the medium-term. The aim was to reduce public debt-to-GDP from existing levels to 96% by 2020. The second objective was to extend maturities to minimise refinancing risks. Domestic debt amounting to $852.5 billion or 63.1% of GDP was affected. A 98.8% voluntary participation rate was achieved, modestly below the desired 100% participation rate. In addition to implementing its medium term debt strategy, the Government continued the reform process for debt management.

In January 2013, the Public Debt Management Act (PDMA) was effected. The Act repeals, updates and consolidates into a single piece of legislation some 20 separate laws governing Jamaica's public debt management. The Act modernises Jamaica's debt legislation by principally, under law, establishing clear, high-level debt management objectives to ensure that the Government pays due consideration to management of both cost and risk exposures when satisfying its borrowing requirement; making mandatory the development and implementation of a medium-term debt management strategy; and requiring the reporting of debt management performance and compliance against stated targets.

Institutional reforms involving the reorganisation and the transformation of the Debt Management Unit within the Ministry of Finance and Planning also continued apace. The reconfigured Debt Management Branch (DMB) has been organised along functional lines to conform to the organisational structures found in modern debt management offices worldwide and which are also consistent with structures found in private financial institutions.

Against the background of a harsh economic climate, increased market uncertainties and continued debt management reforms, Jamaica's public debt as a share of GDP amounted to 134.1%, up from 128% recorded a year earlier. The public debt remained skewed towards the domestic markets, with domestic debt amounting to 74.6% of GDP or a 55.6% share of the total public debt. External debt, accounting for 44.4% of the total, was still primarily held by private creditors, mainly in the form of sovereign bonds issued in the international capital markets.

In support of fiscal policy over the medium-term, debt management operations will continue to focus on satisfying government's borrowing requirement in the most cost-effective manner possible given market conditions and will continue to manage risk exposures in order to limit added fiscal costs. Implementation of the medium-term debt strategy will also be consistent with Government's secondary objective to further develop the domestic capital market.

THE EVOLUTION OF GROSS PUBLIC DEBT

The profile of Jamaica's public debt has changed significantly over the past five years. From a debt-to-GDP ratio of 117.25% in FY 2008/2009, Jamaica's public debt increased to 129.7% at the end of FY 2009/2010, climbing further to a peak of 134.1% at the end of FY 2012/2013.

Underpinning the rise in public debt-to-GDP was the decline in economic activity for most of the five-year period coupled with significant nominal increases in the public debt. The economy contracted on average by 0.7% per annum from FY 2008/2009 to FY 2012/2013 while the debt grew by over 50% from $1,200.3 million to $1,812.6 million over the same period.

A number of factors contributed to the increase in public debt. Large fiscal deficits of up to 11.0% in FY 2009/2010, high inflation of over 10% in FY 2008/2009 and FY 2009/2010 and depreciation of the Jamaica dollar vis-à-vis the United States dollar over the 5-year period all contributed to higher public debt levels. The average annual exchange rate moved from $76.3/US$1 in FY 2008/09 to $95.6 in FY 2012/2013.

Domestic debt remained the larger share of the debt portfolio over the reporting period accounting for more than 50% of total public debt. The high proportion of domestic debt was in part due to a deliberate debt management strategy to rely more heavily on domestic market financing but was also reflective of earlier developments within the decade foremost among which was the assumption on the Government's balance sheet of financial sector liabilities in FY 2002/2003 in the aftermath of the financial sector collapse. Domestic debt as a share of GDP grew steadily thereafter, rising from 63.7% of GDP in FY 2008/2009 to 74.6% in FY 2012/2013.

Jamaica's external debt grew more sedately but, nonetheless, continued to constitute a high share of GDP. At the end of FY 2012/2013, external public debt as a share of GDP amounted to 59.5%, up from 53.6% at the end of FY 2008/2009 but below the peak of 63.8% recorded in FY 2010/2011. The increases in external debt over the period reflect large inflows from multilateral financial institutions especially following the conclusion of an IMF Stand-By arrangement in FY 2009/2010 which incorporated substantial financial support from the Inter-American Development Bank, the World Bank, and the Caribbean Development Bank. Support was also provided by the European Union.

The composition of Jamaica's external debt also altered markedly over the five-year period. The combined effect of a changed policy stance which placed greater emphasis on securing external funds from official sources rather than private sources and changing market conditions led to noted changes in the external debt portfolio. During the period FY 2008/2009 to FY 2010/2011, the Government decided that multilateral financing provided a more cost-effective and reliable source of financing than private market financing from the international capital markets. While sovereign bonds continued to be issued and remained a significant share of the debt, the share of multilateral debt grew rapidly.

In nominal terms, multilateral debt more than doubled, increasing from US$1,343.3 million at end FY 2008/2009 to $3,224.7 million at end FY 2012/2013. The Inter-American Development Bank (IDB) remained Jamaica's single largest creditor accounting for 15.4% of Jamaica's external debt at the end of FY 2012/2013 and 39.0% of total multilateral debt. New commitments from the IDB increased significantly in recent years. The implementation of an IDB country strategy for Jamaica during the review period led to the signing of a number of loans in support of Jamaica's efforts to implement far-reaching macroeconomic and social reforms and spur economic development. Overall, the share of multilateral debt grew from 21.7% of external debt at the end of FY 2008/2009 to just under 40% at end-FY 2012/2013.

Despite the growing share of multilateral debt over the five year period, debt owed to private external creditors remained the largest though declining share of total external public debt. At the end of FY 2008/09, debt owed to private creditors amounted to US$4,148.8 million of which over 92% or US$3,825.4 million was owed to private bondholders. Debt sourced from private creditors accounted for 67.2% of total external debt. At the end of the five-year period, this share declined to 50.5% as increased borrowing from multilateral sources and investors' concern about debt solvency in some economies increased risk aversion especially in holding emerging market debt. Debt owed to private creditors declined marginally and amounted to US$4,107 million at the end of FY 2012/13.

Table 1: Jamaica Public Debt to GDP, 2008/09 – 2012/13 (end period)

	2008/09	2009/10	2010/11	2011/12	2012/13
		(in percent)			
Total Public Debt/GDP	117.3	129.7	131.6	128.0	134.1
Total External Debt/GDP	53.6	61.1	63.8	57.7	59.5
Total Domestic Debt/GDP	63.7	68.6	67.8	70.3	74.6

[1] All figures are on a cash basis

Source: Ministry of Finance and Planning

Further review of the external debt portfolio shows that official bilateral loans constituted the smallest share of external debt over the reporting period. Debt from official bilateral creditors accounted for an 11.0% share of total external debt at end FY 2008/2009 declining further to 10.0% by end FY 2012/2013. Low levels of bilateral debt have been a consistent feature of the debt landscape for the duration of the 2000s, reflecting the increased inclination of creditors, especially those from the major industrialised (OECD) nations, to lend to low-income or post-conflict countries or for emergency and disaster relief. The recent global financial crisis has also resulted in a slowdown of economic activity in most of the industrialised nations which, in turn, has contributed to the decline in international loans as creditor countries themselves implement austerity measures to address debt problems in their own countries.

While loans from Western bilateral donors has dwindled, loan flows to Jamaica have increased from emerging market economies, especially China and Venezuela. Since 2008/2009, China has emerged as Jamaica's largest official bilateral creditor followed closely by Venezuela. Debt to China has risen almost six-fold, increasing from US$72.6 million at the end of FY 2008/2009 to US$412.4 million at the end of FY 2012/2013. China accounted for more than half (51.5%) of total bilateral debt outstanding at the end of FY 2012/2013 followed by Venezuela with a 9.5% share. Combined, these two creditors accounted for over 90% of total non-OECD bilateral debt and 61% of Jamaica's total external bilateral debt.

Jamaica's domestic debt has grown significantly over the period FY 2008/2009 to FY 2012/2013. The volume of domestic debt spiked to 74.6% of GDP at the end of FY 2012/2013 compared to a share of 63.7% at the end of FY 2008/2009. In nominal terms, domestic debt amounted to $1,008.3 million an increase of over 54% above the $651.7 million recorded at end FY 2008/2009.

The rising level of domestic debt over the 5-year period was largely attributable to a concerted policy of reducing overall foreign currency exposure and limiting risk through long-term domestic market issuance. However, increased requirements for deficit financing, the financing of Bank of Jamaica losses, the capitalisation of interest on certain domestic securities and the assumption of debt of public bodies escalated the increase in domestic public debt.

Unlike the external debt portfolio, over 90% of domestic debt is issued in the form of debt securities. A significant feature of domestic debt issuance has been the high exposure to the domestic debt portfolio to interest rate changes as well as refinancing risk. Variable-rate debt constituted over 40% of the total debt portfolio falling to 33.6% at the end of FY 2012/2013. While investors' preferences have tended towards holding variable-rate instruments so as to preserve the value of their income stream, the Government met with measured success in reducing its interest exposure over the period. The marked decline in the variable-rate share was due largely to the implementation of two major liability management exercises over the review period. The first, undertaken in FY 2009/2010 led to the comprehensive restructuring of the domestic debt portfolio and the reduction in the holdings of variable-rate instruments. A second major domestic debt exchange (the National Debt Exchange) undertaken in February 2013 also facilitated a switch from variable-rate to fixed-rate instruments, helping further to limit exposure to interest rate risk.

Table 2: Fixed-rate Share of Debt, in percent

	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**
	In percent				
External debt	76.9	77.5	76.2	71.3	67.8
Domestic debt	40.8	56.3	59.8	55.8	66.3

Source: Ministry of Finance and Planning

In contrast to trends in the domestic debt portfolio, the share of fixed-rate external debt has declined in recent years. From a fixed-rate share of 76.9% at the end of FY 2008/2009, fixed-rate debt has fallen to a 67.8% share at the end of FY 2012/2013. Underpinning this decline has been the increase in new borrowings contracted on variable- rate terms from the larger creditors, notably the IDB. The decline in the fixed-rate share has increased Jamaica's external exposure to interest rate risk. Jamaica's increasing share of variable-rate debt has fortuitously coincided with world interest rates prevailing at historically low levels. This has kept Jamaica's interest payments on external debt at comparatively low levels as key reference rates in the Jamaica portfolio have remained at low levels since FY 2008/2009.

Table 3: External Debt by Remaining Maturity Structure, FY 2008/09-2012/2013

	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Short-term debt: up to 1 year	4.2	2.9	7.2	6.6	6.1
Medium term debt: 1- 10 years	45.3	47.9	47.2	45.5	46.6
Long-term debt: > 10 years	50.5	49.2	45.6	47.9	47.3
Total	**100**	**100**	**100**	**100**	**100**

Source: Ministry of Finance and Planning

Over the past 5 years, the maturity structure of Jamaica's debt has changed notably, particularly in the domestic debt portfolio. On the external debt side, the bulk of the portfolio has comprised mainly of long-term obligations reflecting Jamaica's continued ability to secure longer-term loans on relatively more concessional terms. With the bulk of Jamaica's debt secured on a long-term basis, overall there has been no immediate threat of a bunching of maturities or any significant refinancing risk in the external debt portfolio. Long-term loans from official multilateral and bilateral creditors, such as the World Bank and the IDB, as well as from China, have limited external debt exposure to rollover risk. However, the presence of sovereign bonds and the requirement to service huge one time principal (bullet) payments at maturity has inserted some degree of rollover risk to the portfolio. Nonetheless, the share of short-term debt has dropped to 3.2% at the end of FY 2012/2013, down from 4.2% at the end of FY 2008/2009.

Jamaica's domestic debt portfolio has largely been dominated by short-term and medium-term debt. At the end of FY 2008/2009, almost two-thirds of the domestic debt portfolio comprised obligations with a maturity of 5 years or less. This is strongly indicative of investor's preferences for shorter-dated securities in the face of market volatility and increased uncertainty. Only 15.5% of securities issued in FY 2008/2009 had a maturity in excess of 10 years.

The maturity structure of Jamaica's domestic debt portfolio has, however, lengthened over the 5 year period. This has been occasioned largely by liability management exercises in the form of the 2010 Jamaica Debt Exchange (JDX) and the 2013 National Debt Exchange (NDX) which converted a number of shorter-term instruments into longer-dated securities.

Table 4: Currency Composition of External debt (in percent)

	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**
United States dollar	81.9	79.2	82.4	86.8	89.9
Euro	13.0	16.1	13.6	9.3	5.7
Japanese yen	2.8	2.6	2.1	1.9	1.5
Chinese Yuan	0.0	1.1	1.2	1.4	1.5
Pound sterling	0.6	0.6	0.4	0.3	0.2
Other	1.7	0.5	0.3	0.3	1.3
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Ministry of Finance and Planning

Prudent debt management requires the protection of the debt portfolio from adverse exchange rate movements which can lead to significantly higher debt servicing costs. The currency composition, as shown in Table 4, indicates that the US dollar has remained the principal loan currency in the external portfolio over the past 5 years. At the end of FY 2008/2009, 82% of the debt was denominated in US dollars. The dominance of the US dollar has increased in recent years as, at the end of FY 2012/2013, 90% of the debt was denominated in US dollars. The Euro, the second largest currency share in the external debt portfolio has declined in share by almost 50%, falling from 13.0% at the end of FY 2008/2009 to 5.7% at the end of FY 2012/2013. While the share of Chinese Yuan trails significantly behind the US dollar, notably the share of the external debt denominated in Chinese Yuan has increased in recent years. The Yuan is the third largest currency in the portfolio behind the US dollar and the Euro. From a negligible share in FY 2008/09, the Yuan retains a very small but growing share of the portfolio, accounting for 1.5% of the total currency composition at the end of FY 2012/2013. The increased share of the

Yuan reflects the growing prominence of China as a lender and the increasing loan flows emanating from this source.

The growth in the public debt has been accompanied by a corresponding increase in Jamaica's debt service payments. At the end of FY 2012/2013, total public debt service payments amounted to $215.27 million compared to $274.04 million at the end of FY 2008/2009. Given the larger share of domestic debt and the higher interest rates relative to external debt, domestic debt service accounts for the major share of total public debt service payments. Chronically high debt service payments have imposed a severe fiscal burden as indicated by the high share of total debt service as a share of tax revenues. At the end of FY 2008/2009, this share amounted to 111.3% underscoring the unsustainable nature of the public debt. After peaking at 145.5% in FY 2009/2010, this indicator has improved significantly in subsequent years, largely reflecting the positive impact of the two domestic debt exchanges that lowered interest costs and extended debt maturities. At the end of FY 2012/2013, total debt service as a share of tax revenue amounted to 67.3%, a decline of almost 44%.

Debt service as a share of budgetary expenditure remained high although registering declines over the past 5 years. The large share of budgetary expenditure consumed by debt service payments has severely limited the Government's ability to provide the public goods and services necessary to promote growth and development. At the end of FY 2012/2013, debt service payments consumed more than half of all budgetary expenditures. Notably, this represented a significant improvement over the high of 85% of tax revenues recorded in FY 2009/2010.

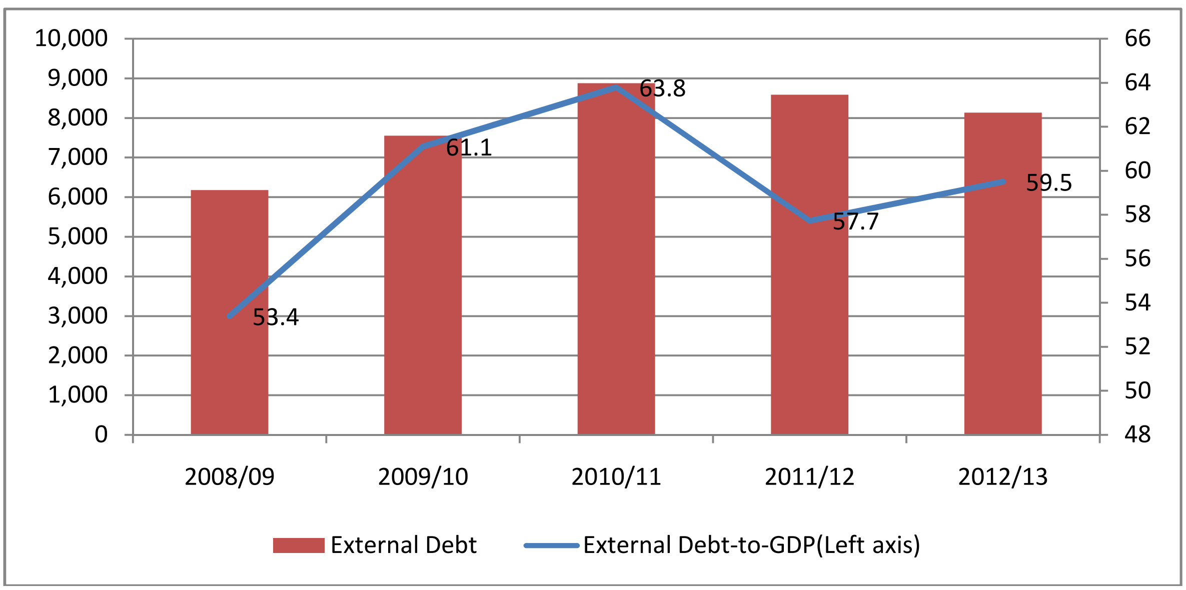
Jamaica remains one of the few market-access countries in the Caribbean. The implementation of liability management exercises and the prolonged negotiations to conclude a financial arrangement with the International Monetary Fund has adversely affected Jamaica's credit ratings. The international ratings agencies, Moody's Investor Services, Standard and Poors' and Fitch Ratings, have downgraded Jamaica by more than one notch reflecting concerns about debt levels and overall fiscal performance. Compared to a rating of B3 and B- from Moody's, Standard and Poors' and Fitch Ratings respectively at the end of FY 2008/2009, Jamaica has an assigned rating of CCC+ from Standard and Poor's on its foreign currency debt, Caa3 from Moody's and CCC from Fitch as at the end of FY 2012/2013. With the recent debt exchanges, the Government's commitment to fiscal reforms and the implementation of an IMF staff monitored programme, it is expected that Jamaica’s debt dynamics will improve over the medium-term and with it a concurrent improvement in its credit ratings.

DEBT DEVELOPMENTS AND CAPITAL MARKETS

External Debt

The stock of public and publicly guaranteed external debt stood at approximately $804,286.7 million or US$8,133.4 million at the end of FY 2012/13 compared to $ 749,627.6 million or US$8,586.8 million at the end of FY 2011/12. In US dollar the external debt decreased by 5.3% compared to a decline of 3.2 % in FY 2011/12. This decline was due primarily to the repayment of the € 200 million that matured in July 2012. In Jamaica dollar terms, the stock increased by $54,659.1 million due mainly to a 13.3% depreciation in the Jamaica dollar relative to the US dollar. The rate of growth of the external debt in local currency terms was 7.3% compared to negative growth rate of 1.5% in FY 2011/12. The external debt to GDP ratio increased from 57.7% at the end of FY 2011/12 to 59.5% at the end of FY 2012/13.

Chart 1: External Debt-to-GDP and total external debt in millions of US Dollar



Source: Ministry of Finance and Planning

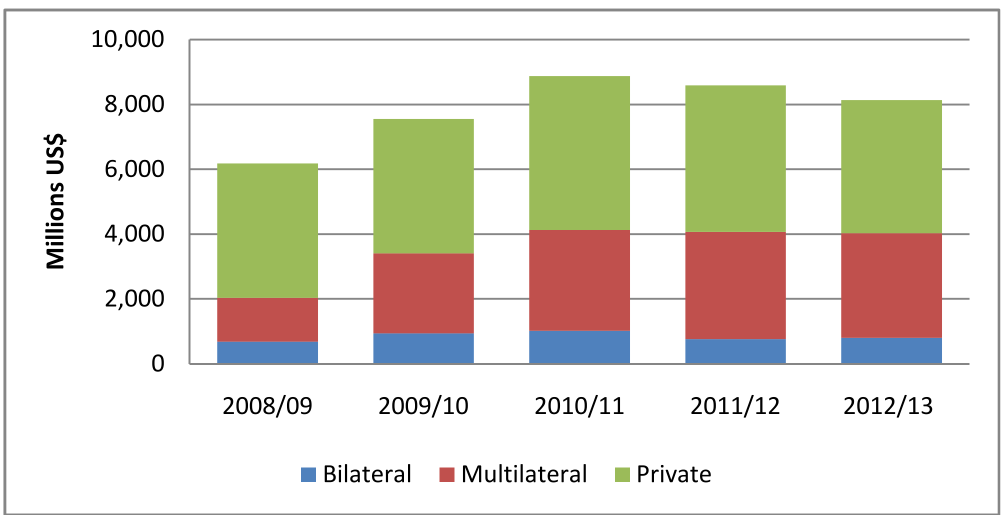
Composition by Instrument Type

The external debt portfolio instrument type is disaggregated into marketable and non marketable instruments represented by bonds and loans respectively. Loans accounted for 56.0% of the total external debt portfolio while bonds issued on the international capital markets comprised 44.0%.

Composition by Creditor Category

Official creditors, comprising bilateral and multilateral creditors, represented 49.5% of the debt stock compared to 47.3% at the end of FY 2011/12. The share of official creditors is apportioned between bilateral creditors that accounted for 9.9% of the external debt stock and multilateral creditors that accounted for 39.6%. The increase in this component reflects the Government's focus on securing more concessional funding from official sources, in particular loans from China and the multilateral institutions. Loans from these sources have had a positive impact on the maturity profile as they have long tenors and maintain the long-term profile of the portfolio. Additionally, this type of debt also contributes to a reduction in debt service costs given that these loans carry lower interest rates.

Chart 2: External debt creditor category in millions of US dollar



Source: Ministry of Finance and Planning

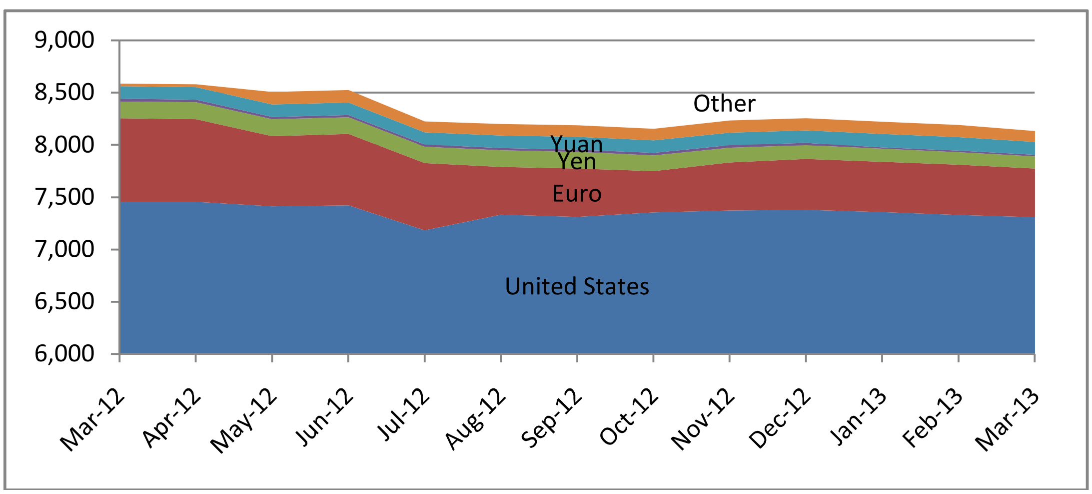
With regard to the composition of the external debt, private creditors continued to be the major category. Cumulatively, this category comprising bondholders, commercial banks and other commercial creditors/suppliers represented 50.4% of the stock. The major component of this category was holders of Eurobonds issued in the international capital markets which accounted for 44.9% of the stock relative to 46.9% at the end of FY 2011/12. The reduction in the share of this component is attributable to the retirement of the €200 million sovereign bond in July 2012.

Commercial bank credits as a percentage of the external debt declined marginally in the year under review, moving from 5.4 % of the external debt stock in FY 2011/12 to 5.2% at the end of FY 2012/13. Suppliers' credits accounted for 0.3% of total external debt.

Composition by Currency

At the end of FY 2012/13, the US dollar share of the external debt increased to 89.9% from 86.8% in FY 2011/12. The increase is attributable to net inflows by way of disbursements denominated in US dollars and the decline in the euro component of the debt as a result of the maturity of a €200 million bond during the fiscal year. The Euro share in the portfolio decreased from 9.3% in FY 2011/12 to 5.7% in FY 2012/13. Reflecting the depreciation of the Jamaica dollar, this change in the US dollar share increased the exposure of the portfolio to movements in the US dollar and resulted in an increase in the stock in Jamaica dollar terms. The Japanese yen, the pound sterling, the Chinese Yuan and other currencies in the portfolio accounted for 1.45%, 0.17%, 1.52% and 1.28% of the portfolio share respectively.

Chart 3: External debt currency composition



Source: Ministry of Finance and Planning

Interest Rate Structure

International interest rates remained low during FY 2012/13 as a result of the prolonged global recession. This, however, had a positive effect on interest payments on variable-rate loans which remained within the budgeted allocation. The relative stability of base interest rates such as the US three-month and six-month LIBOR maintained low levels of 0.28% and 044% respectively as at end March 2013.

Over the years, the external debt portfolio has consisted predominantly of fixed-rate loans facilitating insulation of the external debt from adverse interest rate movements. However, since FY 2008/09, in keeping with the low interest rate environment, the Government has been opportunistic and has opted to contract more variable-rate debt particularly from multilateral creditors for loans with the option to convert them to fixed-rate instruments when interest rates start to trend upwards. This decision was based on the outlook for interest rates over the medium to long term. As a result, there has been a gradual increase in the variable-rate component of the debt.

At the end of March 2013, 67.8% of the external debt carried a fixed interest rate and 32.2% was variable compared to a 71.3/28.7 proportion of fixed to variable at the end of March 2012.

Table 5: Interest Rate Structure

	FY 2010/11	**FY2011/12**	**FY 2012/13**
Fixed-Rate Debt	76.2	71.3	67.8
Variable-rate	23.8	28.7	32.2
Total	100.00	100.0	100.00

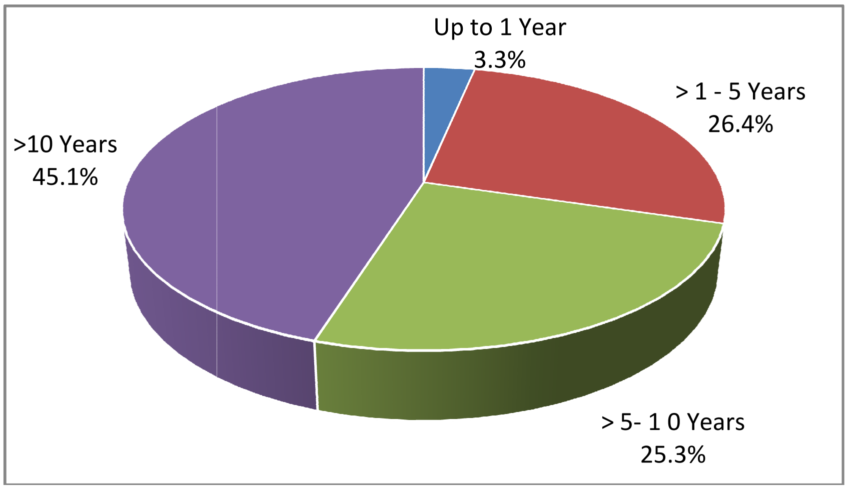
Source: Ministry of Finance and Planning

Maturity Structure

For FY 2012/13 there was a notable shift towards the shorter end of the curve (up to 5 years) as older loans in the portfolio and large bullet maturities amounting to US$ 1,126.1 million for global bonds become due. Despite this trend, the external debt portfolio continues to be largely long-term and remains consistent with the debt management strategy objective of extending debt maturities.

Of the total external debt outstanding at the end of FY 2012/13, 29.9% had maturities of up to 5 years compared with 17% at the end of FY 2011/12; 25.2% had maturities of 5-10 years down from 35.1% in FY 2011/12; and 45.0% had maturities in excess of 10 years down from 47.9 % in FY2011/12.

Chart 4: Maturity Composition

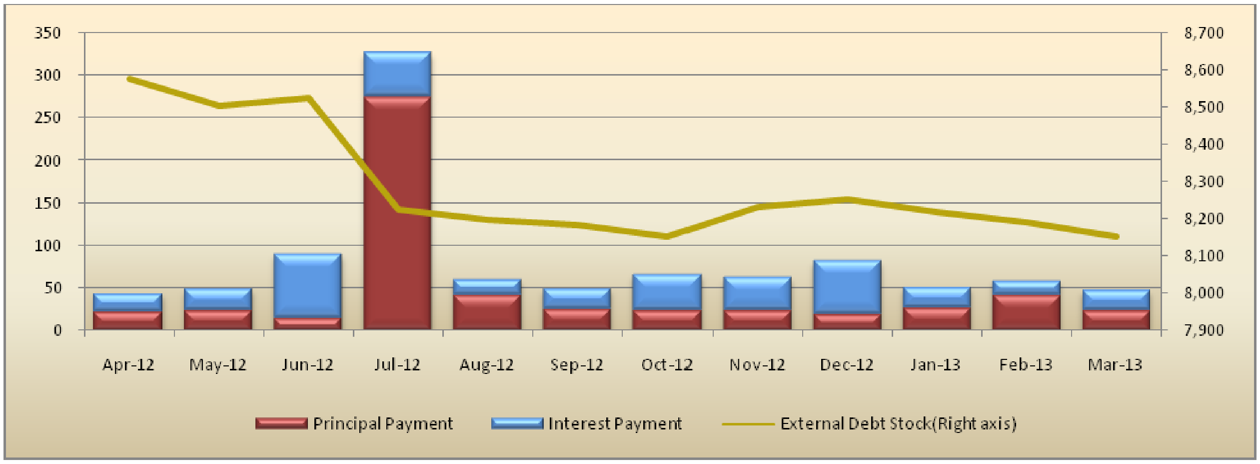


Source: Ministry of Finance and Planning

Debt Service

External debt service for FY 2012/13 amounted to $90,443.6. This amount comprised amortisation of $ 51,235.0 and interest payments of $39,208.6. Amortisation was $22,322.4 or 30% lower than budgeted due to the non-execution of a planned liability management exercise on the portfolio

Chart 5: External Debt Service

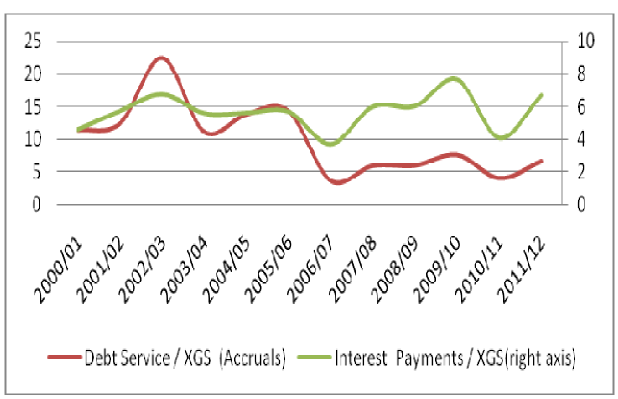


Source: Ministry of Finance and Planning

Debt Indicators

The external debt-to-GDP ratio increased from 57.7% in FY 2011/12 to 59.5% in FY 2012/13. The ratio of international reserves to external debt decreased to 9.2% from 20.7% in FY 2011/12 and is indicative of reduced coverage of the external debt by the reserves. This is also a measure of vulnerability in the assessment of the country by investors and rating agencies. The decrease was due to the significant erosion of the gross international reserves during the fiscal year. The ratio of external interest payment to export of goods and service at 15.0% remained within international benchmark indicating that there was adequate foreign exchange from earnings to pay interest costs.

Chart 6: Debt Indicators



Source: Ministry of Finance and Planning

XGS denotes export of goods and services

Table 6: Debt Indicators

	2010/11	2011/12	2012/13
External Debt / GDP	63.8	57.7	59.5
External Debt / XGS	137.5	83.4	122.9
Multilateral / Total Debt	11.6	17.0	17.6
Debt Service / XGS (Actuals)	11.5	17.4	15.2
Interest Payments / XGS	4.1	6.9	6.7
Disbursement/External Debt	16.0	7.8	2.9

Source: Ministry of Finance and Planning

Domestic Debt

Stock of Debt

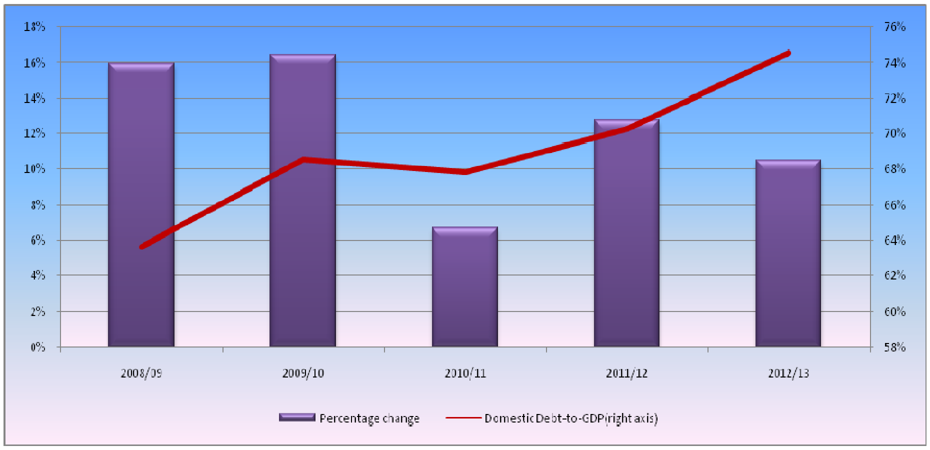
At the end of FY 2012/13, Jamaica's domestic debt stood at $1,008,348.6million or 74.6% of GDP. This is a net increase of 10.5%, when compared with $912,642.3million or 70.3% of GDP at the end of FY 2011/12. The average monthly movement in the stock for the period was approximately 0.84%.

In addition to this level of domestic debt, Jamaica has guaranteed certain financial obligations of public sector entities. At March 31, 2013, the extent of these internal guarantees was approximately $31,897.22 million or 2.4% of GDP.

The main factors contributing to the increase in the domestic debt stock were:

- Financing of the fiscal deficit; and
- Depreciation of the value of the Jamaica dollar vis-à-vis the US dollar and other currencies.

Chart 5: Percentage change of domestic debt



Source: Ministry of Finance and Planning

Structure

Consequent on the completion of the National Debt Exchange (NDX) at the end of February 2013, the structure of the domestic debt, which comprises marketable securities and loans, was significantly altered. The exchange, which had a success rate of just under 99.0%, created twenty-two (22) new NDX Notes with a nominal value of $843,477.9million with outstanding balances in twenty-four (24) "Old" JDX notes totaling $48,472.8million. Overall, the stock comprises 88.5% marketable securities and 11.5% standard loans. This liability management exercise successfully realigned the portfolio, moving it closer to an optimal debt structure intended to reduce interest costs and extend maturities so as to eventually achieve the objectives of the Medium-term Debt Management Strategy (MTDS).

At the end of March 2013, fixed-rate J$ Benchmark Notes accounted for 42.3% of the stock, variable-rate J$ Benchmark Notes accounted for 33.3% and fixed-rate CPI-Indexed Notes 3.7%. Additionally, fixed-rate US$-denominated Benchmark Notes and other US$ loans accounted for 19.9%, Treasury Bills 0.4%, while Commercial Bank loans and other loans accounted for the remaining 0.4%.

Table 7: Chart indicating proportion of instruments in domestic portfolio: FY 2011/12 – FY 2012/13

	FY 2011/12	%	FY 2012/13	%
FR Notes	333,462.4	36.6	426,158.4	42.3
VR Notes	399,753.7	43.8	335,979.4	33.3
US$ Notes and Loans	145,198.0	15.9	201,224.7	19.9
CPI Notes	25,269.4	2.8	36,890.0	3.7
Treasury Bills	4,000.0	0.4	4,000.0	0.4
Commercial Bank & Other Loans	4,958.8	0.5	4,096.1	0.4
Total Domestic Debt	**912,642.3**	**100.0**	**1,008,348.6**	**100.0**

Source: Ministry of Finance and Planning

Currency Composition

At the end of FY 2012/13 the foreign currency component of the debt stock showed a marked increase of approximately 4.0% over the previous period. This component totalled $201,224.7million or 19.9% compared to $144,975.6million or 15.9% at the end of FY 2011/12. Although there were no market issues of US dollar-denominated bonds in the domestic market during the period, the Government took advantage of financing available from the PetroCaribe Development Fund at attractive terms. This resulted in a 3.7% increase in the US dollar denominated portion of the domestic debt stock. The value of the Jamaica dollar vis-à-vis the US dollar depreciated by approximately 13.3% during the fiscal year, contributing to the significant increase in the Jamaica dollar equivalent of the US dollar denominated debt and demonstrating the effects of increased foreign exchange risk in the portfolio.

Table 8: Currency composition reported in millions of Jamaica dollars

	FY 2011/12		FY 2012/13		Change
	$	%	$	%	$
Local Currency	767,444.3	84.1	807,123.9	80.1	39,679.6
US Currency ($ Equivalent)	144,975.6	15.9	201,224.7	19.9	56,249.1
Euro ($ Equivalent)	222.5	100.0	0.0	100.0	-222.5
TOTAL	912,642.4		1,008,348.6		95,706.3

Source: Ministry of Finance and Planning

Interest Rate Structure

FY 2012/13 ended with significant improvement in the ratio of fixed-rate to variable-rate debt. Over the review period the fixed-rate portion of the debt increased to 66.3%, up from 55.7% at the end of FY 2011/12. The improvement is directly related to the concessional fixed-rate loan funds from the PetroCaribe Development Fund (PDF) and the recently completed NDX

A stated objective of the MTDS in FY 2012/13 is the achievement of a portfolio where debt contracted on a fixed-rate basis is in a significantly greater proportion to debt contracted on a floating rate basis, in line with international best practice. However, a difficult market environment resulting from investor uncertainty led to the issue of approximately 54.4% as variable-rate debt.

Table 9: Interest Rate Composition of New Domestic Debt FY 2011/12– FY 2012/13

	FY2011/12		FY2012/13	
	($million)	%	($million)	%
Fixed-Rate	54,494.71	38.2	47,357.4	**50.0**
Variable-Rate	88,257.79	61.8	47.282.0	**50.0**
Total	**142,752.5**	**100.0**	**94,639.4**	**100.0**

Source: Ministry of Finance and Planning

The successful execution of the NDX compensated for this with the addition of at least two (2) new fixed-rate securities to the menu of Benchmark Notes. This, as well as a managed reduction of variable-rate debt, led to a 19.0% increase in the fixed-rate component by the end of FY 2012/13.

Table 10: Interest Rate Composition FY 2011/12– FY 2012/13 in Percentage

	FY2010/11	FY2011/12	FY2012/13
Fixed-rate	59.8	55.7	66.3
Variable-rate	40.1	44.2	33.6
Non Interest-Bearing	0.1	0.1	0.1
Total Debt	**100.0**	**100.0**	**100.0**

Source: Ministry of Finance and Planning

Maturity Profile

For more than half of FY 2012/13, the domestic markets were characterised by high levels of uncertainty and reduced confidence in the economy due mainly to prolonged negotiations with the International Monetary Fund for an Extended Fund Facility. For the most part, investors maintained cash or very short positions and exhibited a preference for investments along the short end of the yield curve.

Unfavourable market sentiment led to a revised issuance strategy where approximately 33.9% of the total debt issued during the review period had maturities ranging from 10 to 18 months. Despite these challenges, the Government successfully issued just over 2.0% of total debt at the 30-year segment of the yield curve.

By the end of the review period and the completion of the NDX, the maturity profile of the domestic debt portfolio improved significantly achieving an average extension of 5 years. This resulted in the smoothing of bunched maturities within the one to three year segments of the yield curve and a significant reduction in the associated re-financing risks.

By the end of FY 2012/13, the maturity profile of the domestic portfolio showed significant improvement at the short end of the curve as debt scheduled to mature within one year had declined to 6.3% compared to 12.0% at the end of FY 2011/12. In the one to five-year segment, 17.0% was scheduled to mature compared with 43.8% at the end of FY 2011/12, while debt scheduled to mature after 5 years accounted for 76.7% compared to 44.2% at the end of FY 2011/12.

Table 11: Maturity Profile of the Domestic Debt by Remaining Maturity in millions of Jamaica dollar

	FY 2011/12		FY 2012/13		Change
	($)	(%)	($)	(%)	($)
Up to 1 Year	109,121.3	12.0	63,897.6	6.3	(45,223.7)
> 1 - 5 Years	399,936.4	43.8	171,602.9	17.0	(228,333.5)
> 5- 10 Years	175,240.0	19.2	313,656.6	31.1	138,416.6
>10 Years	228,344.7	25.0	459,191.5	45.6	230,846.8
Total	**912,642.3**		**1,008,348.6**		**95,706.2**

Source: Ministry of Finance and Planning

New domestic debt issued in FY 2012/13, had 63.7% maturing within 5 years, compared with 23.7% in FY 2011/12. Debt issues with maturities in excess of 10 years accounted for 31.1% compared with 51.5% at the end of FY 2011/12

Table 12: Maturity Structure of Original Maturities for New Domestic Debt Issued during FY2012/13 reported in millions of Jamaica dollars

	Up to 1 Year	>1-5 Years	>5-10 Years	>10 Years	Total
Issues	32,067.8	28,210.0	4,944.3	29,417.3	94,639.5
%age	**33.9**	**29.8**	**5.2**	**31.1**	**100.0**

Source: Ministry of Finance and Planning

Debt Service

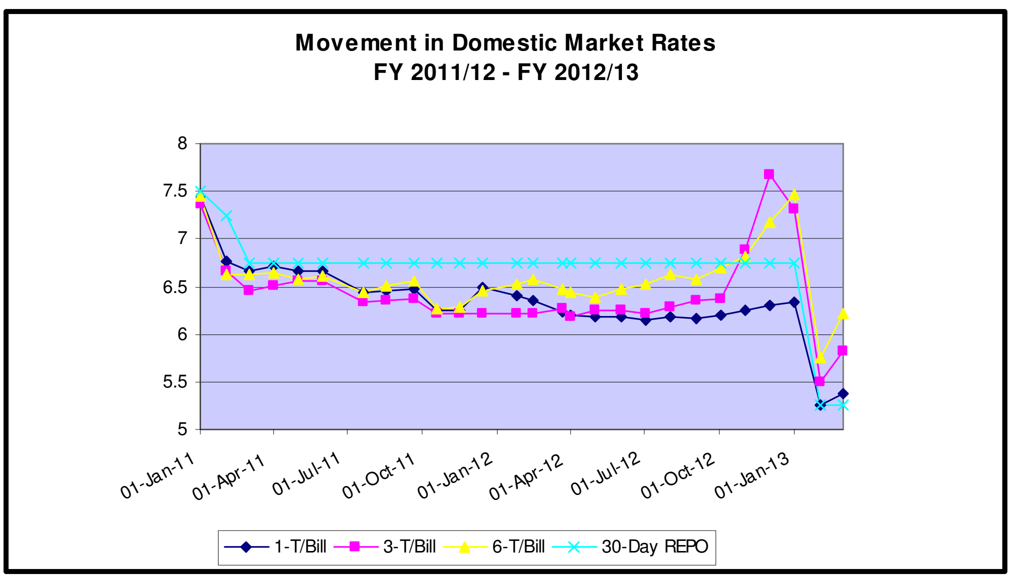
Debt service on the domestic stock for FY 2012/13 totalled $122,822.7, of which principal repayments accounted for $41, 093.6 while interest payments were $87,729.1. Principal repayments were $83,519.3 or 67.0% lower than budgeted. This was mainly due to the execution of the NDX which resulted in a rescheduling of debt maturing in February 2013.

Interest Rates

Interest rates in the domestic market remained on a downward trajectory declining to historically low levels during FY2012/13. On February 22, 2013, the interest rate on the signal BOJ 30-day open-market instrument was decreased to 5.75% p.a. down from 6.25% p.a. in March 2011 when it was last revised**.**

The average yields on the 1-month, 3-month and 6-month categories of Treasury Bills continued to trend downwards moving from 6.24% p.a., 6.27% p.a. and 6.47% p.a. respectively at the end of March 2012, to close the fiscal year at 5.37% p.a., 5.82% p.a. and 6.22% p.a. respectively.

Chart 6: Domestic Market rates



Source: Ministry of Finance and Planning

Domestic Debt Indicators

At the end of FY 2012/13, the domestic debt as a percentage of GDP was approximately 74.6%, compared with 70.3% at the end of FY 2011/12. Domestic interest payments accounted for 27.4% of tax revenue and 24.3% of recurrent expenditure at the end of FY 2012/13, compared with 28.1% and 23.3% respectively, at the end of FY 2011/12.

Table 13: Domestic Debt Indicators, FY 2011/2012-FY2012/2013 (in percent)

Domestic Debt Indicators – FY 2012/13 In percent		
	FY2011/12	**FY2012/13**
Domestic Debt / GDP	70.3	74.6
Debt Service / Total Revenue	46.4	36.2
Debt Service / Total Expenditure	37.0	31.3
Interest Payments / Total Revenue	25.3	25.5
Interest Payments / Tax Revenue	28.1	27.4
Interest Payments / Total Expenditure	20.2	22.0
Amortization / Total Revenue	21.1	10.8
Amortization / Total Expenditure	16.8	9.3

Source: Ministry of Finance and Planning

PROFILE ON THE STOCK OF PUBLIC DEBT (J$ millions)											
	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
DOMESTIC DEBT	**366,158.1**	**417,571.3**	**449,247.6**	**482,712.5**	**513,958.1**	**562,108.1**	**651,657.4**	**758,700.4**	**809,370.0**	**912,642.3**	**1,008,348.65**
Percentage of total debt	60.9%	60.2%	59.1%	57.0%	55.7%	56.2%	54.3%	52.9%	51.5%	54.9%	55.6%
Local Registered Stocks	240,923.0	220,819.2	218,412.6	235,632.7	226,693.9	223,581.6	201,936.1	168.1	-	-	
Treasury Bills	2,950.0	3,750.0	4,050.0	3,800.0	4,200.0	4,200.0	4,094.5	4,000.0	4,000.00	4,000.00	4,000.00
Investment Debentures	41,189.6	86,844.5	128,974.2	155,905.6	200,676.8	261,459.9	328,268.2	27,115.9	-	-	
US$-Indexed Bonds	42,315.6	51,515.5	37,189.7	25,575.1	24,588.9	17,843.2	29,743.4	419.3	-	-	
US$-Denominated Bonds	30,579.3	45,312.6	47,533.3	51,163.7	49,958.1	49,894.3	79,567.5	25,539.2	29,255.34	63,977.79	108,296.51
J$ Benchmark Bonds	-	-	-	-	-	-	-	600,971.4	667,800.70	733,216.07	762,137.88
US$ Benchmark Bonds	-	-	-	-	-	-	-	73,253.5	79,561.13	80,997.79	92,928.23
CPI-Indexed Bonds	-	-	-	-	-	-	-	21,165.0	23,573.70	25,269.41	36,889.97
Commercial Bank Loans	6,322.6	7,450.1	12,219.3	9,111.6	6,785.7	4,187.8	7,125.0	5,160.6	4,452.5	3,764.49	3,216.00
Other Loans	1,878.0	1,879.4	868.5	1,523.8	1,054.7	941.2618	922.7	907.4	726.6	1,416.78	880.06
EXTERNAL DEBT	**235,083.2**	**276,315.4**	**310,451.6**	**364,637.4**	**409,196.1**	**438,568.4**	**548,668.5**	**676,055.4**	**760,998.24**	**749,631.08**	**804,286.71**
Percentage of total debt	39.1%	39.8%	40.9%	43.0%	44.3%	43.8%	45.7%	47.1%	48.5%	45.1%	44.4%
Bilateral	56,316.2	59,744.0	54,970.9	49,199.9	47,660.01	49,403.87	60,884.52	84,143.97	87,040.54	66,609.38	79,261.49
Multilateral	69,115.4	70,273.8	80,735.4	81,947.5	81,982.29	85,422.43	119,306.48	220,990.38	266,631.41	288,169.62	318,880.68
IBRD	26,999.2	26,852.9	26,087.2	25,733.0	24,831.75	24,207.87	35,594.71	51,528.98	47,953.19	56,836.40	63,915.29
IDB	29,884.6	30,060.8	38,981.8	38,792.7	38,205.03	38,250.75	55,612.01	78,071.74	105,228.11	111,014.43	124,112.45
IMF	-	-	-	-	-	-	-	57,285.25	72,884.17	74,202.82	82,483.90
CDB	4,761.3	5,498.2	7,145.2	8,658.5	8,916.99	11,791.50	16,138.01	22,084.36	24,989.80	29,547.03	32,228.40
EEC	5,349.1	6,370.7	7,052.9	6,418.5	7,370.74	8,502.22	7,423.31	8,555.19	11,479.08	12,175.64	4,265.86
Other	2,121.2	1,491.1	1,468.3	2,344.7	2,657.78	2,670.10	4,538.43	3,464.86	4,097.07	4,393.29	11,874.79
Bonds	90,691.6	120,908.4	145,421.85	208,916.27	258,203.76	280,550.53	339,756.85	340,646.73	360,162.98	351,204.41	361,330.28
Other	18,960.0	25,389.21	29,323.33	24,573.66	21,350.05	23,191.61	28,720.63	30,274.36	47,163.30	43,647.68	44,814.37
TOTAL DEBT	**601,241.3**	**693,886.8**	**759,699.2**	**847,349.9**	**923,154.2**	**1,000,676.5**	**1,200,325.9**	**1,434,755.8**	**1,570,368.2**	**1,662,273.4**	**1,812,635.4**

PORTFOLIO REVIEW

The Government made moderate achievements in the execution of its *Debt Management Strategy* in FY2012/13. The implementation of the Debt Management Strategy was challenged by the unstable economic environment globally, wavering investor confidence locally and uncertainty due to protracted negotiations with the International Monetary Fund.

Domestic Debt

Borrowing Plan/ Issuance

The issuance strategy for FY 2012/13 was predicated on a borrowing requirement of approximately $141,806.8million to be financed from the domestic market through the issuance of an appropriate mix of fixed and variable-rate bonds, intended to achieve a 60% FR and 40%VR ratio in the domestic portfolio and to extend maturities. However, due to the unfavourable market conditions the desired financing objectives were not achieved.

Gross new domestic debt issued during FY 2012/13 amounted to $94,639.46million, compared with budgeted financing of $141,806.8million. The total raised represented a shortfall of 33.3% below budgeted financing and compares with 42.6% over the budgeted amount at the end of the previous year. The significant reduction in debt financing resulted from a decline in market participation in government securities and the consequent difficulty in successfully executing scheduled debt raising activities.

During the review period, market response to GOJ securities declined significantly when compared with the corresponding period in previous fiscal years. Intake from debt issuances during Q2 and Q3 of FY2012/13 totalled $26,330.4million. This showed a decline of 50.1% and 33.2% respectively, when compared with $52,718.3million and $39,412.3million issued in the corresponding period of FY 2011/12 and FY2010/11, respectively.

This was due mainly to the high level of uncertainty and reduced confidence in the market resulting mainly from the absence of an IMF programme and growing expectations of another restructuring exercise.

Government's response to the challenging market environment was to design new issues and reopen benchmark instruments at the short end of the yield curve to satisfy market demand. In November 2012, a new variable-rate bond with a maturity period of ten (10) months was issued in the market in keeping with the feedback from the investor community. The issue represented a departure from the guidelines of the Government's debt management strategy as it was the first Bond designed with a maturity period of less than a year.

Given the market environment, efforts to raise adequate financing for the Government's operations resulted in approximately $42,550.3million or 44.9% of the total debt raised in FY2012/13 having maturities ranging from 10 months to two years. Also due to the market environment, the debt strategy objective of increasing the fixed-rate component of the debt was not achieved as approximately 54.4% of debt issuances comprised variable-rate domestic securities.

The Government also sought alternate non market financing given the demonstrated market preference. To this end a significant amount of the required financing was sourced from the PetroCaribe Development Fund during the year. Although the funds were obtained on concessional terms, the effect of this financing option was an increase of approximately 3.7% in the US$ denominated component of the domestic debt stock and a consequent increase in the foreign exchange risk in the portfolio.

Tightened liquidity conditions and deteriorating market sentiment where investors maintained cash positions, very short positions or opted for local corporate bonds and regional bonds instead of GOJ securities, necessitated several revisions to the issuance strategy for FY 2012/13.

Liability Management Exercise – National Debt Exchange

Three years after the historic Jamaica Debt Exchange in February 2010, the Government of Jamaica executed a second domestic debt exchange, to further realign the portfolio through the extension of maturities and reduction of interest rates.

The programme, which was marketed as the National Debt Exchange (NDX), became necessary to address the growing refinancing risk that had again become inherent in the domestic portfolio. It was also one of the prior actions needed in order for Jamaica to secure an Extended Fund Facility with the IMF. Prior to execution of the NDX, the stock of debt was again characterised by bunching of maturities within the short to medium term with the bulk of maturities occurring in the one to three year period. With this came the attendant adverse effect on the fiscal operations.

The main characteristics of the NDX were:

- A voluntary par-for-par exchange for all Bonds except the new Fixed-rate Accreting Note ("FRAN") offer which had an exchange ratio of 0.8:1;
- An exchange of eligible market issued Jamaica and United States Dollar benchmark notes into new longer-dated securities with significantly reduced yields,
- The replacement of 25 eligible Benchmark Bonds with a nominal value of $852.5 billion, with 22 new Benchmark Bonds which included the introduction of the "FRAN"[2]. This Note was specifically targeted at public bodies and long term investors, e.g. pension funds.

[2] The "FRAN" is a Bond where the investor is issued principal value of $80.00 in new notes for every $100.00 of principal value of Old Notes is exchanged. The principal accretes from $80.00, beginning August 15, 2015, to $100.0 by the maturity date on August 15, 2028.

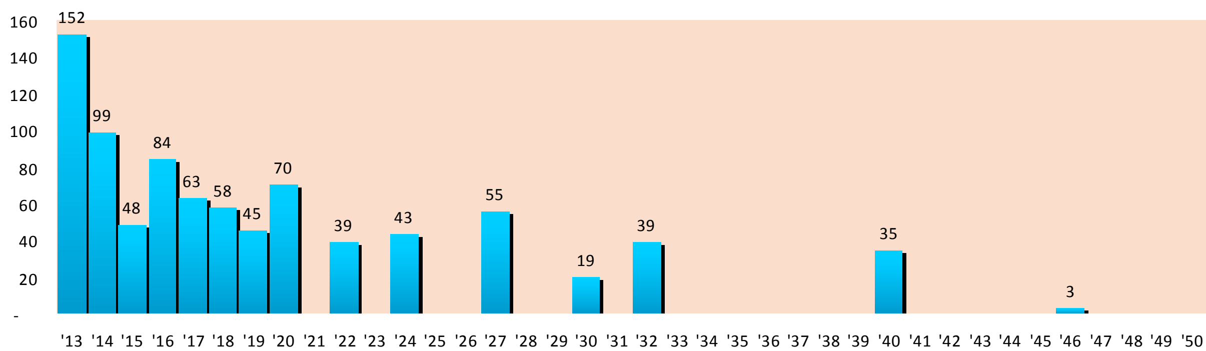
The main achievements of the NDX were:

- A participation rate of just under 99.0%.
    - Out of a nominal value of $852.5 billion in eligible Bonds, an amount of $841.5 billion was tendered.

- **Reduction in weighted average costs through:**
    - Reduced margins on CPI and VR Bonds on average by 0.975%,
    - Reduced coupon on US$ Notes on average by 1.792 %
    - Reduced coupon on J$ Notes on average by 3.206%
- Reduction in risk associated with VR reset rates
    - VR debt reduced by over $113.0 billion
- Net estimated cost savings in excess of 1.0% of GDP
    - Substantial cost savings averaging $17 billion per annum through an annualized reduction in average coupon by 2.0%
- Reduction in refinancing risk through:
    - An extension of the maturity profile of the domestic debt portfolio by an average of 5 years,
    - A reduction in redemptions by approximately $375.0 billion for the period up to 2016

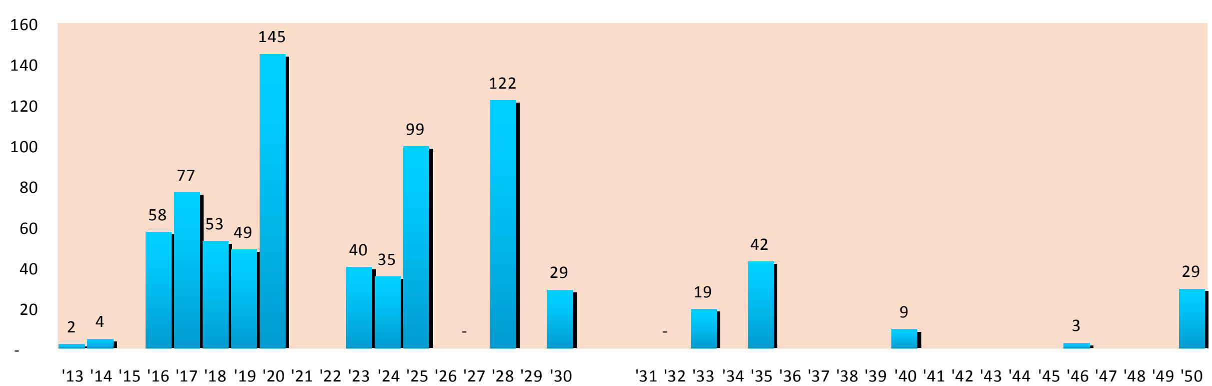
The change in the maturity structure of marketable domestic securities is shown in Chart 7 and Chart 8 below.

Chart 7: Pre - NDX Maturity Profile of Stock of Eligible Marketable Domestic Securities ($Bn)



Source: Ministry of Finance and Planning

Chart 8: <u>Post - NDX</u> *Maturity Profile of Stock of Eligible Marketable Domestic Securities ($Bn)*



Source: Ministry of Finance and Planning

The NDX was launched on February 12, 2013 and settled on February 22, 2013. Citigroup Global Markets Inc. was engaged as Sole Lead Arranger for the transaction.

PRESS ACCOLADES FOR NDX

Jamaica Debt Exchange Sees 97% Participation Rate So Far

Wall Street Journal

Thursday, February 21, 2013

The preliminary results of Jamaica's debt-restructuring plan have yielded a participation rate in excess of 97% so far, government officials said late Thursday, adding that the exercise was ongoing. Pamella McLaren, senior director in the debt-management branch of the government, said in an interview that the exchange has been "very successful" and that more notices of participation are coming in so the government "should be in a better position tomorrow." Peter Phillips, Minister of Finance and Planning for Jamaica, said in an interview that the government would extend the exchange offer by a week to allow additional bondholders who were delayed to come in. "I am still hopeful we will approach close to 100%," he said. "It was a very short period, and some retail funds haven't had time to come in."

Jamaica Aims to Restore Market Confidence

Financial Times

Friday, February 22, 2013

After Jamaica's biggest bondholders agreed to the debt restructuring plan, 97 per cent of creditors ended up accepting the offer by the deadline on Thursday, clearing the way for the International Monetary Fund to disburse a $750m financial lifeline to the government. Peter Philips, Jamaica's Finance Minister, said the new programme consists of "front-loaded sweeping actions by the government, combined with an outside stakeholder monitoring process and an internal implementation process. "Of course, the more fundamental reason why this time is different is that politically and financially we simply can't contemplate failure," Mr. Philips said.

Jamaica NDX Tops 97%

LatinFinance

Friday, February 22, 2013

Jamaica has received more than 97% acceptance for the National Debt Exchange (NDX) targeting JAD860bn ($9.12bn), according to a source familiar with the matter. The NDX involved 25 series of JAD-denominated, USD-denominated and inflation-indexed bonds at various maturities. The country was expected to have reduced the bonds from 25 series to 21, lower coupons on its debt between 1% and 5%, and extend most maturities by 3-5 years and few by as much as 10 years. The government has set a goal of having a debt-to-GDP ratio of 95% within seven years, down from 140% now, it says.

External Debt

One of the stated objectives for the review year was the execution of a market-friendly liability management exercise aimed at achieving an extension in the maturity profile which would enhance the debt management process by:

- reducing refinancing risks;
- increasing liquidity in the targeted bond(s) to qualify for JP Morgan Emerging Bond Index (EMBI) eligibility, and
- assisting in insulating the Government against a rise in funding costs in the short-term.

This was not implemented as international capital market conditions were not conducive to the execution of such a transaction.

The Government ensured that it met the statutory requirements of the US Securities and Exchange Commission (SEC) by filing its annual return on Form 18k in December 2012. This will facilitate easy re-entry into the international capital markets and serves as a medium of updated information on the country to investors. The amount placed on the "Shelf" under the Schedule B Programme of the SEC was replenished to US$1 billion in FY 2011/12 , in keeping with the Government's medium-term external borrowing programme. This amount continues to be available as there were no issuances in the international capital market for the period under review.

Borrowing Plan/Issuance

The borrowing plan for FY 2012/13 was based on securing funding from the international capital market and from the multilateral institutions. However, the plan for funding in the international capital markets was revised and substituted by funding from the domestic market as the market conditions were not ideal to provide the optimal terms if a transaction was pursued.

The debt management strategy objectives of raising adequate funding at least cost and the mitigation of refinancing risk were therefore upheld. Another positive outcome of the revised strategy was that the Euro component of the debt and the associated risk and impact of the volatility of the currency on the portfolio was removed as the debt was not refinanced by Euro-denominated external funding.

Rating Agencies Review

There were mixed reviews on Jamaica's creditworthiness by rating agencies during FY 2012/13. During the first, third and fourth quarters of the year Jamaica's long-term foreign currency and local currency Issuer Default Ratings were reaffirmed by all three rating agencies. However, the outlook was revised from "Stable" to "Negative" by Standard and Poors', and Fitch Ratings. The country's ratings were as follows:

Table 14: Jamaica – Credit Ratings

Agency	Date of Review	Rating	Outlook
Moodys Investor Services	June 13, 2012	B3	Stable
Standard & Poors'	October 8, 2012	B-/B	Negative
Fitch Ratings	January 17, 2013	B-	Negative

Source: Ministry of Finance and Planning

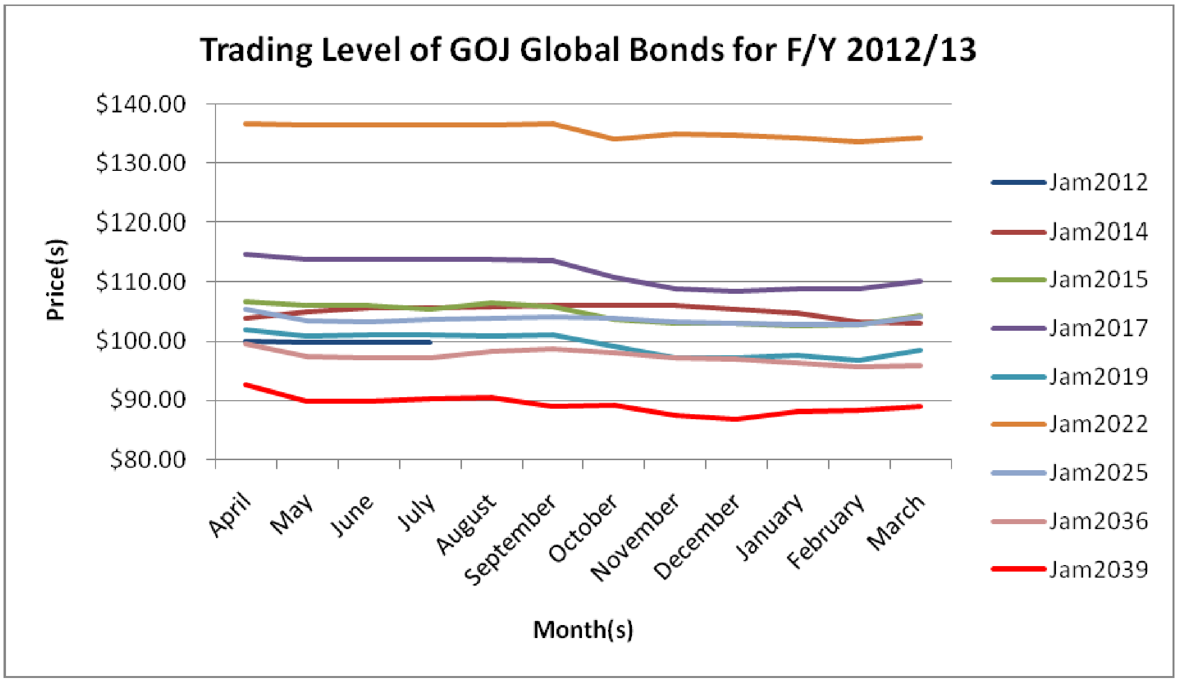
Following the National Debt Exchange (NDX), Jamaica's credit ratings were lowered to the ratings agencies' respective default categories as the exchange was viewed by the rating agencies as a 'distressed debt exchange'. The rationale for effecting these rating actions was:

- the country's already low ratings;
- the impact of the operation on the original contractual terms of domestic bondholdings; and
- the net present value losses for investors.

On the successful execution of the National Debt Exchange (NDX) all three rating agencies upgraded the country's ratings but not to the substantive pre NDX levels. On March 1, 2013 Fitch Ratings upgraded Jamaica's ratings from RD to CCC, the country Ceiling to B- and the international senior secured debt at CCC. Likewise, Moody's on March 6, 2013, revised Jamaica's Government debt rating to Caa3 from the pre NDX rating of B3. Standard and Poors' on March 6, 2013 also revised Jamaica's long-term foreign and local currency sovereign credit ratings to 'CCC+' from 'SD'. The outlook was Stable.

Review of Trading Level for GOJ Global Bonds FY 2012/13

Chart 9



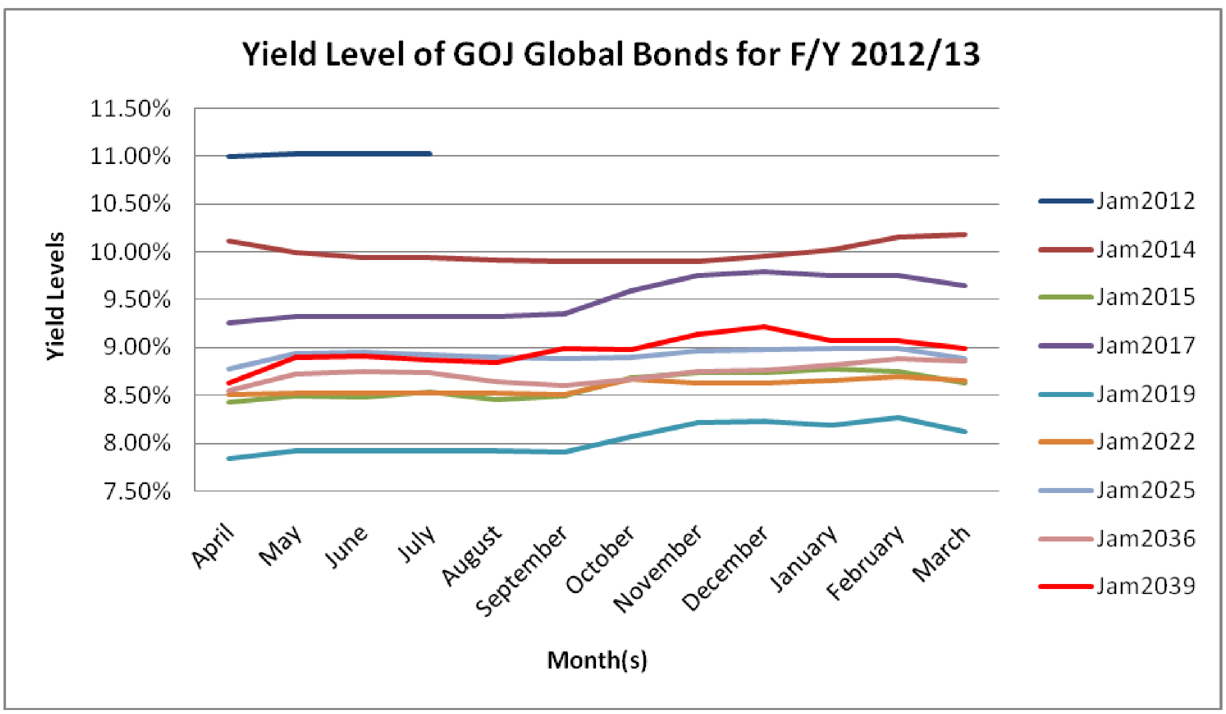
Source: Ministry of Finance and Planning

During the first half of FY 2012/13, the trading levels of GOJ Global Bonds were relatively stable, despite the general aversion created by the global financial crisis. For the third quarter of the year there was some price volatility which resulted in declines in trading levels. In the last quarter of the year there was some stability as the prices of the bonds slowly trended upwards. The overall trading results realized marginal declines ranging within the band of 100 basis points to 400 basis points

At the beginning of the year, there was active trading in all nine (9) bonds in the sovereign bond portfolio. One of these bonds, the 11% € 200 million Bond due July 2012, matured. Of the remaining eight, five continued to be traded at premium levels and the other three at a discount. Two of the three bonds have consistently traded below par while the price of the other bond (Jam 2019) decreased marginally below par at the beginning of the second half of the fiscal year (trading at an average rate of $99.50 at year end). On the other hand, the sovereign bond (Jam 2022) continued to be traded at a price significantly above par **(average rate $135.41),** similarly, the Jam 2017 bond also traded above par at an average rate of $111.70. The remaining three bonds were moderately above par.

The overall performance of Jamaica's bonds was mediocre but this performance is within the context of the risk aversion on the part of investors globally and the uncertainty that overshadowed the investing community in Jamaica during the second half of the fiscal year in the face of declining macroeconomic fundamentals and the pending conclusion of a Fund arrangement. In comparison to other similarly rated Caribbean countries, the performance of Jamaica's Global Bonds was significantly better.

Chart 10



Source: Ministry of Finance and Planning

Conclusion

Debt raising activities during the fiscal year was extremely challenging. Despite the adverse market conditions, the GOJ was able to maintain its impeccable record of 100.00% financing of its debt service commitments.

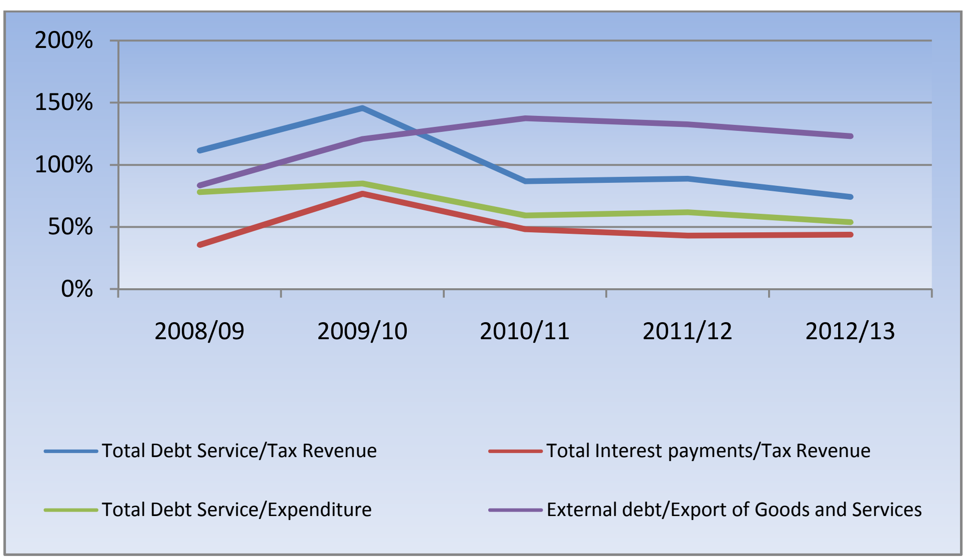
SUSTAINABILITY INDICATORS

The study and analysis of fiscal vulnerabilities and their relationship to indebtedness has become a focal point for analysis within the context of the financial crises affecting emerging economies. International financial institutions and investors use fiscal vulnerability indicators to measure a country's repayment capabilities and evolution of debt.

Current debt service ratios are indicators of the present debt service position. However, they have the disadvantage of masking future problems such as high debt stock due to moratoriums and long repayment periods. Indicators, using Government revenue, estimate the capacity to repay public and publicly guaranteed debt.[3] There are several indicators that are used to measure a country's vulnerability and debt burden. This section will speak specifically to:

- external debt-to-export of goods and services and net transfers;
- total debt service-to-tax revenue;
- total debt service-to-expenditure; and
- total interest payments-to-tax revenue.

Chart 11: Sustainability indicators as a percentage of Gross Domestic Product



Source: Ministry of Finance and Planning

[3] Taken from http://www.unescap.org/pdd/debt/VIII.asp#d

Chart 11 presents the trend of these indicators over the period FY 2008/09 to FY 2012/13.

All indicators increased from a range of approximately 39%-110% in FY2008/09 to approximately 75%-142% in FY2009/10. With the exception of external debt-to-export of goods and services all indicators gradually declined.

Subsequent to the increase of debt service in FY2009/10, the debt service indicators declined. This decline was due to an aggressive rate reduction by the Bank of Jamaica (BOJ) on all categories of its monetary policy open market instruments and the execution of the Jamaica Debt Exchange in February 2010, which led to a reduction in the Government's debt servicing cost.

The vulnerability indicator of external debt/export of goods and services indicates debt burden level over exports or the capability of acquiring currencies. The indicator increased from 83.4% in FY 2008/09 to 123.2% in FY 2012/13 peaking at 137.5% in FY 2010/11 and then declined to 123.2% in FY2012/13.

MONITORING AND DISBURSEMENT REPORT

In keeping with international best practice, the reorganised debt unit, the Debt Management Branch (DMB) was mandated to manage the monitoring and disbursement of all projects executed by the ministries, departments and agencies. The Monitoring and Disbursement Section in the Debt Management Branch is responsible for approximately 99 projects financed by 73 grants and 26 loans sourced primarily from official creditors.

The Inter-American Development Bank (IDB), the Caribbean Development Bank (CDB) and the International Bank for Reconstruction and Development (IBRD) continue to be Jamaica's major partners accounting for 64.0% of the project portfolio. Despite the global economic slowdown, its impact on small economies such as Jamaica and an impending International Monetary Fund Agreement, the Government of Jamaica was able to successfully sign a loan agreement in FY 2012/13 with the IDB for an Integrated Social Protection project. This project was designed to support the Government's efforts to enhance the efficiency and effectiveness of key social protection programmes for the poor and vulnerable. In keeping with the Government's overarching commitment to the poor, grant funding was received from the European Union in the amount of Euro 3.9million.

Chart 12

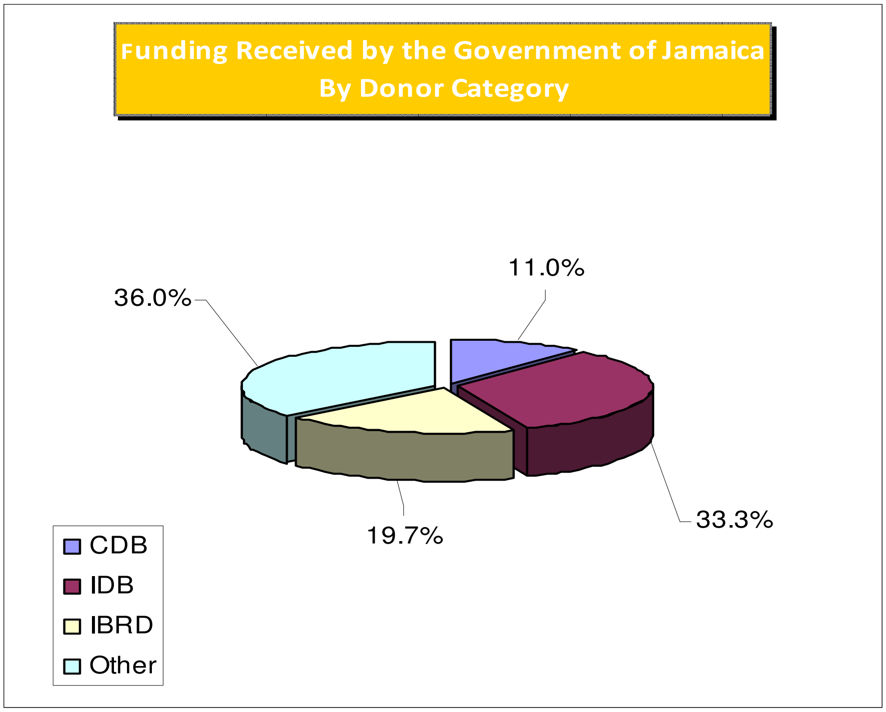
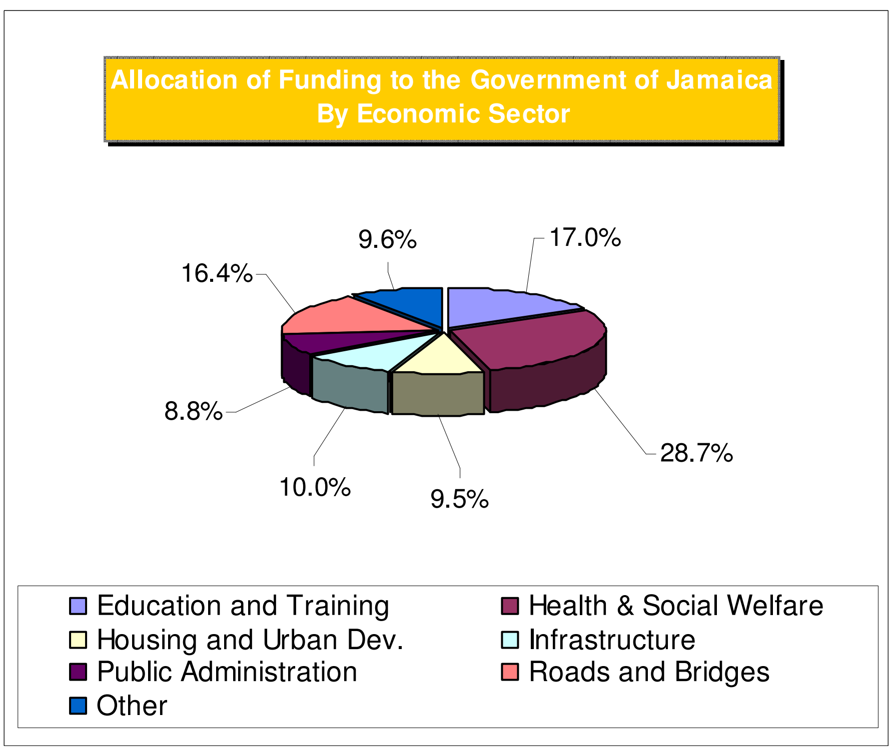


Chart 13



Key projects in three sectors are highlighted below:

Fiscal Administration & Modernisation Programme (FAMP)

The FAMP was designed to provide support to the Government's fiscal reform agenda for priority areas including the modernisation of tax and customs administration, the implementation of the Central Treasury Management System and the enhancement of debt management operations. To this end, the GOJ will improve the collection of customs duties and tax revenues and achieve a sustainable fiscal position by strengthening the Ministry of Finance & Planning's institutional capacity through these four components. These goals are expected to be achieved over the medium term, evidenced by the decline in the gap between actual and projected tax revenues, reduction in the number of non-compliant taxpayers, increased efficiency in customs operations and the reorganization of debt management operations.

Citizen Security and Justice Programme II (CSJP)

The general objective of this programme is to intervene in more than 50 volatile and vulnerable communities to increase the long-term stability, well-being and inclusiveness of these communities in a manner that is consistent with the goals of Vision 2030. This intervention will contribute to a reduction in the level of crimes and interpersonal violence.

The two main components of this programme are Community Action and Capacity Building of the Ministries of National Security (MNS) and Justice. The CSJP has had major achievements for this fiscal year which include:

- Restorative Justice (RJ) which was approved by Cabinet in April 2012;
- RJ rolled out its operations in 11 additional communities;
- Completed training of facilitators to undertake RJ hearings in communities;
- Institutional Strengthening of the MNS; and
- Vocational Skills training of 1,002 persons.

The CSJP continues to build on international best practices for strengthening community mobilisation and governance and the expansion of social and economic inclusion for young people. As a result of this intervention, according to an assessment by the Planning Institute of Jamaica, communities participating in the programme have experienced declines in homicide, shooting and violence-related injuries.

Early Childhood Project

This project's developmental objective is to:

- Improve the monitoring of children's development and the screening of household-level risks;
- Improve the risk mitigation and early intervention systems;
- Enhance the quality of early childhood schools and care facilities; and
- Strengthen Early Childhood organisations and institutions.

To date the project has had considerable success in improving early childhood development through the establishment of an institutional anchor to lead the Early Childhood Development Policy implementation and coordination across sectors. The early childhood functions were transferred from the Ministry of Education to the Early Childhood Commission and a management system put in place to facilitate monitoring, policy formulation and quality assurance. A Child Health Passport has also been introduced whereby all children 0-3 are monitored and screened for risks.

Despite the success of some projects, there are still many projects with less than desirable results. Among the challenges to execution are utilisation rates of between 0% to 20% and the slow pace of implementation which continues to be related to several issues pertaining to procurement, project management and budgetary constraints. These factors affect cost minimisation, which is one of the core objectives of debt management operations. The costs affected include increased commitment fees and interest payments.

In order to achieve one of the core objectives of the DMB, that is, cost minimisation, the Monitoring and Disbursement Section intends to engage all stakeholders on a regular basis to ensure that projects are completed within the projected timeline.

INSTITUTIONAL STRENGTHENING

Reorganization of the Debt Management Unit

Background

Several debt management crises, the most recent being that in the Euro zone, have highlighted the importance of sound debt management practices and the need for an efficient and sound capital market[4].

In April 1998 the Ministry of Finance and Planning (MOF&P) assumed full responsibility for debt management functions. Prior to that, debt management functions were fragmented across three institutions; the Bank of Jamaica (BOJ), the Accountant General's Department and the Ministry of Finance and Planning. The main purpose of centralising the debt management functions in the MOF&P was to support the debt management process of establishing and executing a strategy for managing the Government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals the government may have set, such as developing and maintaining an efficient market for government securities[5].

Since the transfer of the functions to the MOF&P the Government of Jamaica has implemented a series of reforms to formulate and implement credible medium-term debt management strategies (MTDS) and policies, to develop the institutional structures for managing debt and to strengthen the capability to better manage the debt portfolio. Notwithstanding the gains in debt management consequent on the transfer of the functions to the MOF&P, inefficiencies and duplications of functions existed as debt management functions were structured along borrower category.

Cognizant of the constraints to effective debt management, in April 2011, approval of a reorganized structure consistent with international best practice, along functional lines of front, middle and back offices was obtained. The reorganized structure effected the establishment of the Debt Management Branch (DMB) within the MOF&P which is charged with the effective development and execution of the Government's MTDS. Three specialist sub-units were

[4] Guidelines for Public Debt Management 2001 International Monetary Fund

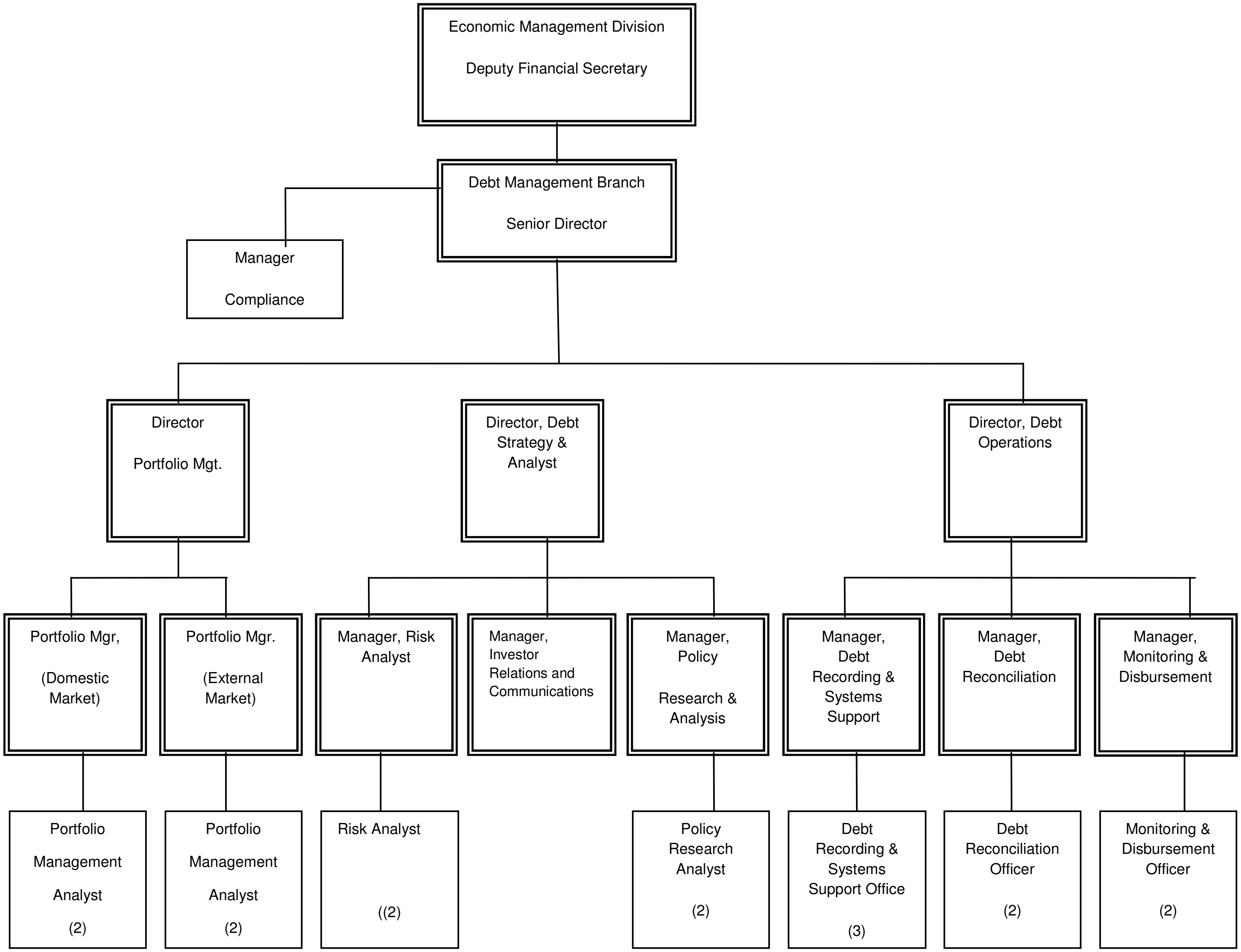
[5] Ibid 1

established to perform the strategic and analytical functions, implement the borrowing plan and liaise with financial markets; and to undertake back-office operations including statistical, accounting and reporting functions.

The thrust of the new Debt Management Branch is to increase the efficiency of debt management operations and to more effectively develop and implement debt management strategies underpinned by rigorous analysis based on increased use of world class analytical tool. The overall objective of the debt management reform process is to strengthen public debt management so that critical functions such as analytical reporting on the Government's debt and enhanced capacity building in the area of debt management are improved through *inter alia*:

- Operational efficiencies;
- Specialization of functions;
- Reduction in debt servicing cost through innovative use of liability management techniques;
- Better oversight and coordination of contingent liabilities;
- Minimization of operational risk; and
- Contribution to further risk reduction on the Budget.

To implement and execute the necessary reforms the structure of the DMU was reorganised as follows:


Economic Management Division
Deputy Financial Secretary
Debt Management Branch
Senior Director
Manager
Compliance
Director
Portfolio Mgt.
Director, Debt Strategy & Analyst
Director, Debt Operations
Portfolio Mgr, (Domestic Market)
Portfolio Mgr. (External Market)
Manager, Risk Analyst
Manager, Investor Relations and Communications
Manager, Policy Research & Analysis
Manager, Debt Recording & Systems Support
Manager, Debt Reconciliation
Manager, Monitoring & Disbursement
Portfolio Management Analyst (2)
Portfolio Management Analyst (2)
Risk Analyst ((2)
Policy Research Analyst (2)
Debt Recording & Systems Support Office (3)
Debt Reconciliation Officer (2)
Monitoring & Disbursement Officer (2)

Organization of the Debt Management Branch

Front Office

The front office (the portfolio management team) is responsible for the analysis and efficient execution of all portfolio transactions, consistent with the portfolio management policy of the DMB.[6] The front office is charged with defining issuance strategies and mechanisms and provides documentation required for the issuance process; coordinating issuance of debt securities with the BOJ and managing relations with the rating agencies. The main functions of the front office are outlined below;

- Designing and executing funding transactions, both for and from domestic and international sources of funding;
- Designing and executing trading and hedging transactions (e.g. including debt buy-backs and exchanges, interest rate and currency swaps, etc.);
- Continuous monitoring and reporting of market conditions, including analysis of potential investor base, both domestic and international;
- Analyzing projections of funding needs (in partnership with the middle office and fiscal policy unit) and providing input on implications for a funding strategy;
- Providing input on the design of the funding strategy;
- Offering advice on government policy initiatives to foster the development of the primary and secondary government bond markets;
- Offering advice on possible market reaction to new fiscal information;
- Evaluating funding requests by Public Enterprises; and
- Evaluating expected cost/pricing of guarantees and other contingent liabilities and methodologies for evaluating expected cost.

[6] Sound Practice in Government Debt Management, Wheeler 2004

Middle Office

The core competence of the middle office is the design of the public debt management strategy, for final authorization of senior government authorities, which will involve cost/ risk modelling and an analysis of macroeconomic and market constraints. The primary responsibilities of the middle office are outlined below:

- Risk modelling of the aggregate debt portfolio;
- Analysis of potential constraints on debt portfolio management (macroeconomic, financial market, etc.) and their influence on debt strategy;
- Debt strategy formulation and design of strategic targets and/or benchmarks;
- Management of investor relations, both domestic and international; and
- Monitoring compliance with the established portfolio and risk management policies including regular reports monitoring market and credit risk.

Back Office

The back office is charged with the operational functions of the DMB, involving transaction confirmation, settlements, reconciliation and payments, as well as maintaining records of new contracts, disbursements and payments and also the recording/monitoring of explicit guarantees. Responsibility for managing the system needs of the debt office, including systems planning, implementation of new system, and maintenance and updating of existing applications, is also assigned to this office. Compilation of debt statistics and reporting on operational risk vulnerabilities- often, with the help of the middle office – is a back office responsibility[7]. Outlined below are the main back office functions:

Confirmation of the transactions undertaken by the front office, i.e. independently verifying with the counterparty's back office that the terms of the transaction are as the front office stated;

[7] Sound Practice in Government Debt Management, Wheeler 2004

- Settlement of the transactions once they have been confirmed, i.e. issuing/receiving payment instructions to/from counterparties;
- Reconciliation of creditor statements to ensure consistency with the DMB's records;
- Debt registration and management of the debt data base ;
- Administering loan documentation;
- External reporting requirements (together with the middle office, but at a minimum providing basic statistics);
- Operational risk management; and
- Managing the relationships with fiscal agents (BOJ)

The Reform Process

The overarching goal of the reform process is for the restructured debt management unit (the DMB) to be resourced with appropriately qualified and technically competent staff who (i) have the capability to design and execute a comprehensive and technically sound medium-term debt strategy to ensure that the government's borrowing requirements are met at least cost and within prudent risk limits and (ii) who will ensure that debt management operations are undertaken efficiently and effectively and in conformity with internationally accepted standards of public debt management.

As at end-March 2013, the total technical staff complement of DMB was 19 as follows:

Table 15: Status report of recruitment process

Position	Number of DMB Positions	Number Positions Filled	% of Posts Filled
Head, DMB	1	1	100.0%
Compliance	1	0	0%
Portfolio Management (Front Office)	7	5	71%
Debt Strategy and Analysis (Middle Office)	8	2	25%
Debt Operations (Back Office)	11	11	100%
Total	**28**	**19**	**70.4%**

LEGAL FRAMEWORK

Legislation is a key component of public debt management. Sound public debt management legislation limits the potential for abuse of power, reduces the possibility of multiple issuers of Government debt and establishes appropriate accountability for managing the Government's debt portfolio[8].

Over the past decade a growing number of developing countries have initiated reforms to strengthen institutional and regulatory frameworks in public debt management. Countries such as Thailand and Mauritius have instituted public debt management acts in 2008 and 2005 respectively.

Jamaica's fiscal operations are governed under the Financial Administration and Audit (FAA) Act which was strengthened in 2010 with the establishment of a Fiscal Responsibility Framework (FRF). The FRF was effected through amendments to the FAA Act and the Public Bodies Management and Accountability (PBMA) Act. The FRF has also been supported through the development of regulations. Associated with the FRF was the development of a Public Debt Management Act (PDMA).

Prior to enactment of the PDMA, legislation relating to public debt management was captured under more than twenty (20) discrete pieces of legislation, some dating back to the early years of the last century. Among the pieces of legislation governing public debt were the Constitution of Jamaica, the FAA Act, the Loan Act of 1964 (both as amended from time to time), a large number of subsidiary Loan Acts, and the Bank of Jamaica Act. Although these legislative frameworks contained some of the basic principles of public debt, they did not cover all the salient features of public debt management that promote sound debt management practice.

The PDMA was therefore introduced to consolidate in one Act the governing framework for debt and to clearly outline the objectives of debt management. Introduction of the PDMA was accompanied by the repeal of some of the prior Acts, and amendments to others. Appropriate savings clauses were inserted in the PDMA to assure the preservation of rights and obligations in

[8] Wheeler, G.(2004) Sound Practice in Government Debt Management

respect of loans raised and guarantees given under the repealed Acts, that were still outstanding when the new law took effect.

Consistent with the reform process the Public Debt Management Act (PDMA)[9] was passed on November 22, 2012. The Act is a coherent and comprehensive legislative framework which takes a strategic approach to public debt management in conformity with best international practice.

The PDMA sets out clear objectives for the management of public debt, mandates the preparation of a public debt management strategy, prescribes a framework within which decisions are to be made on the management of public debt, and establishes accountability and reporting requirements. The PDMA complements, and is consistent with, the FRF amendments to the FAA Act and the PBMA Act, both of which were approved by Parliament in early 2010.

The focus of the PDMA is the management of the public debt. Accordingly, it:

- authorizes the Minister to borrow money and issue guarantees;
- makes explicit the purposes of borrowing and the objectives of debt management;
- mandates the preparation of a public debt management strategy and;
- prescribes provisions aimed at strengthening the existing public debt governance framework and clarifying the respective roles of key agencies in public debt management.
- Speaks to the establishment of public debt management committees
-

Table 16 outlines the main duties of the Minister, the Public Debt Management Committee and the Public Debt Financing Committee.

[9] The PDMA can be found on http://dmu.mof.gov.jm/default.asp?c=500&page=

Table 16: Duties of the Minister, Public Debt Management Committee and Public Financing Committee

The Minister	Public Debt Management Committee	Public Debt Finance Committee
• To ensure that financing needs and payments are met at the lowest possible cost. • To develop and maintain an efficient market for government securities. • To ensure that management of the debt is consistent with fiscal sustainability. • To promote and develop the domestic market • To ensure that the Medium Term Debt Strategy is compatible with the macroeconomic objectives of the Government.	• To monitor implementation of the PDMA Act and the Medium Term Debt Strategy. • To assess debt strategies, the operations of debt management and the management of contingent liabilities.	• To make recommendations to the Financial Secretary in respect of debt instruments • To review debt related transactions. • To review and recommend the monthly schedule of market instruments. • To review the evaluations of funding requests by public bodies. • To review and monitor issues relating to contingent liabilities. • To provide periodic reports to facilitate the work of the PDMC.

Source: Public Debt Management Act

MEDIUM TERM DEBT MANAGEMENT STARTEGY (MTDS) FY 2013/14 - FY 2015/16

Introduction

The Medium Term Debt Management Strategy (MTDS) is designed to ensure that the Government's funding needs are met at minimum cost over the medium term while keeping risks in the portfolio at acceptable levels.

The MTDS seeks to achieve an optimal mix of external and domestic financing and a prudent balance between short and long term funds, fixed and floating rate debt and foreign currency and local currency exposure. The strategy is developed to establish clear debt management guidelines and quantitative targets which allows the Government to identify, monitor and mitigate risks that are inherent in the portfolio and to assess and account for its performance.

The MTDS is one component of a broader strategic planning process developed within prescribed guidelines for prudent management of the debt portfolio. The guidelines are listed below:

- To establish a sustainable debt service profile;
- To gradually increase the proportion of fixed-rate debt in the portfolio;
- To increase the average maturity of existing debt;
- To smoothen the maturity profile of the debt and reduce bunching over the medium-term;
- To promote the development of efficient primary and secondary markets for domestic securities;
- To pursue liability management programmes in the external market through the use of structured debt operations such as buy-backs and switches;
- To continually engage domestic and external investors; and
- To further broaden the investor base and diversify funding sources.

The medium-term debt strategy also includes the government's Annual Borrowing Plan which details the instruments that the Government plans to issue to achieve the desired debt composition. It comprehensively outlines the monthly schedule of all market based issuances, indicating the interest basis and the tenor of the instruments that the government intends to issue in FY2013/14. It also increases the transparency of debt operations and gives investors time to plan and configure their portfolio to accommodate new Government issuances.

The paper consists of 6 sections including the introduction. Section 2 reviews the debt management strategy for FY 2012/13. Section 3 looks at the key macro economic assumptions that underpin the MTDS for FY 2013/14 -2015/16. Section 4 describes the alternative debt management strategies. Section 5 reviews the analysis of the selected strategy. Section 6 speaks to the recommended strategy and ABP.

Review of the Medium-term Strategy: FY 2012/13

The objectives of the Medium-Term Debt Management Strategy for FY 2012/13 were as follows:

- Raising the required level of financing to fund the Budget at least possible cost, given existing market conditions;
- Reducing the share of variable-rate debt in the portfolio;
- Extending the maturity profile of market issuances ; and
- Lowering the foreign-currency portion of domestic debt.

The quantitative targets are summarised in Table 17 below:

Table 17: MTDS Strategic Benchmark for FY 2012/13 and Outcome at end March 2013

	Benchmark		Outcome	
	Domestic	Foreign	Domestic	Foreign
Nominal Amount				
Loan Receipts	$141,806.8	J$109,338.9	124,512.9	$13,022.8
%age				
Fixed-rate	60.0-70.0	-	66.4%	-
Variable-rate	30.0-40.0	-	33.6%	-
ATM[10] (years)	>8.1	-	-	-
	Total Debt		*Total Debt*	
Cost	7.5		7.4	
Debt due in 1- year	< 10.0		5.0	
Foreign Currency debt	-		-	

Source: Ministry of Finance and Planning

In 2012/13, the Government projected to source $141,000.0 million and US$1,231.2 million from domestic and external sources respectively. Included in domestic receipts was an amount of $35.0 billion or approximately US$380.0 million from the PetroCaribe Development Fund (PDF). With respect to external funding, US$520 million was expected from official multilateral creditors as policy-based and developmental loans; US$171.2 million as project loans from multilateral and bilateral creditors, and US$500.0 million from private creditors. The funding needs of the Government were met; however, the planned financing was not realised due in part to low demand for domestic Government securities and lower than planned domestic amortisation, which reduced the financing requirement for the fiscal year (See Table 18).

Table 18: Planned and Actual Loan Receipts for FY 2012/13 in millions Jamaica dollar.

	Budget	Actual	Deviation
Domestic	141,806.9	131,561.1	-10,245.8
External	109,338.9	13,022.8	-96,316.1
Total	**251,145.8**	**144,583.9**	**-106,561.9**

Source: Ministry of Finance and Planning

[10] Average Time to Maturity (ATM) shows how long it takes on average to rollover the debt portfolio. A shortening of this indicator suggests that the portfolio is being rolled over more frequently and therefore is more exposed to refinancing shocks.(IMF& World Bank MTDS Guidelines, 2009)

Overall, the Government borrowed $53,000 million less than planned during the fiscal year. This was due in part to $87,216.0 million in JDX notes which matured in FY 2012/13 being swapped for longer dated securities as part of the NDX.

During the first half of the fiscal year there was uncertainty in the domestic capital markets. The take-up from securities issued was lower than anticipated. It was also very challenging to raise the requisite amount of external financing from the international capital markets. Programmed inflows from official multilateral creditors were not realized due in part to the country's inability to finalise a programme with the International Monetary Fund (IMF).

Although the Government embarked on reforms to improve fiscal and debt operations, the pressures of low economic growth and uncertainties in the domestic economy resulted in fiscal slippages. The gains made in debt operations post-Jamaica Debt Exchange (JDX)[11] were being eroded: investors' appetite for Government securities waned, there was high demand for domestic variable-rate securities along the short-end of the yield curve. In addition, it was challenging to raise the required level of financing to fund the budget

The Government engaged the IMF with the aim of entering into an Extended Fund Facility (EFF). An agreement with the IMF was sought to provide resources to improve external reserves that were declining and to reaffirm to the markets the government's commitment to fiscal discipline. In addition to this, an agreement with the IMF would *inter alia* improve the opportunity for the country to secure funding from official sources and restore confidence in the markets.

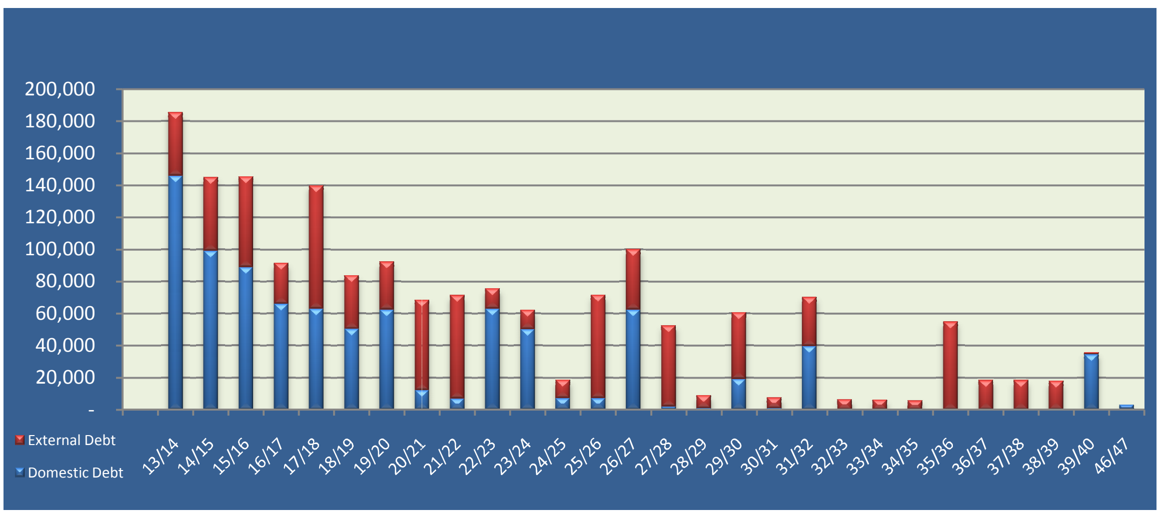
In order to satisfy a prior condition of the IMF, the Government undertook a liability management programme in the domestic market. The operation was undertaken following consultation with major stakeholders and stress testing of financial institutions to ensure their viability and stability on completion of the exercise. The programme marketed as the National Debt Exchange (NDX) resulted in the government swapping 25 JDX notes for22 new notes.

[11] The Jamaica Debt Exchange was a liability management programme in the domestic market executed by the Government in January 2010. High coupon securities were swapped for securities with lower coupons and extended maturities.

Investors' participation was voluntary. The new notes had coupon payments that were, on average 2 % (200 bps) lower than the old notes. In addition, average maturity was extended by approximately 5 years. (See **Chart 14** and **Chart** 15).

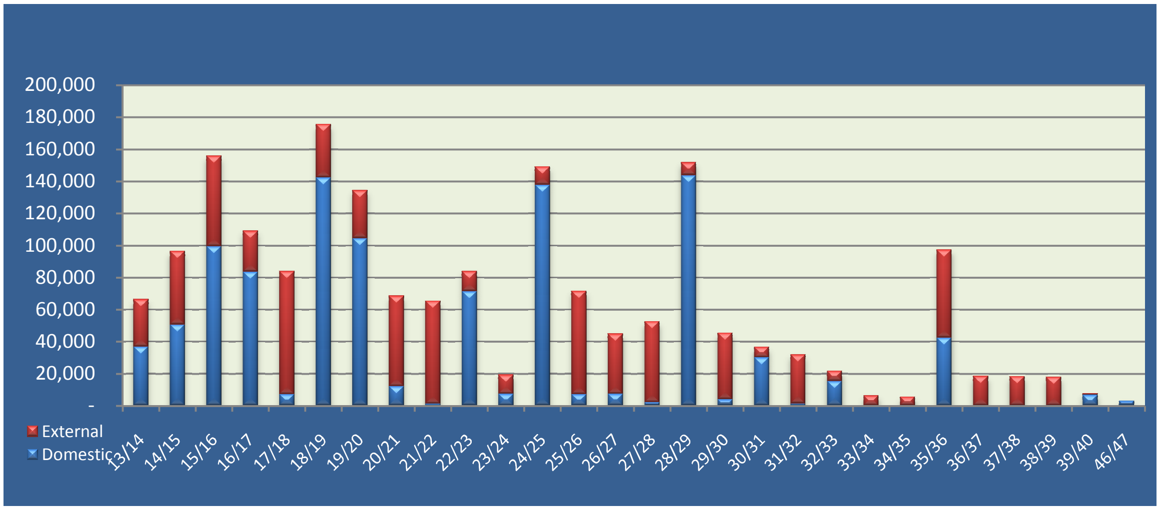
The total nominal bond holding eligible for participation in the NDX was $852,465.7 million (67.5 % of GDP) of which $841,945.4 million or just below 99 % was exchanged. An accreting bond was included in the mix of instruments offered. It was designed for public bodies and subscription amounted to $142,797.1 million. The bond was issued at a discount of 20 % which resulted in reduction of the debt by $30,421.3 million (2.4% of GDP). The instrument will however accrete to its full face value at maturity. The interest savings generated by the NDX amounted to approximately $17.0 billion (1.4% of GDP) per annum.

Chart 14: Maturity Structure of the Total Debt prior to the NDX (in millions Jamaica dollar)



Source: Ministry of Finance and Planning

Chart 15: Maturity Structure of the Total Debt post-NDX (in millions of Jamaica dollar)



Source: Ministry of Finance and Planning

Cost and Risk Assessment

Cost minimisation and risk mitigation are major objectives of the MTDS. The objective of reducing cost in the portfolio will not be pursued at the detriment of increased portfolio risks, as ultimately high exposures to exchange rate, interest rate and refinancing risk lead to higher debt servicing costs and increased fiscal stress over the medium- to long-term.

Given the current level of uncertainty that exists in the global economy increased focus is being placed on risk management. There are important lessons to be learnt from events in Western Europe. Prior to 2009, some countries in the region experienced unprecedented levels of economic growth and stability until rapid deterioration in external and internal conditions led to budgetary pressures and pushed their nominal debt stocks to unsustainable levels. The volatility of the international and domestic markets suggests that economic conditions can deteriorate rapidly. Therefore, the Government will employ portfolio management strategies to mitigate potential risks.

Market Risk

Market risk is the possibility that the debt stock could increase due to changes in market conditions that adversely impact the cost of debt, such as changes in short-term interest rates, exchange rates, the yield curve and inflation. Given the composition of the domestic debt portfolio the major market risks are exchange rate and interest rate risks. Inflation risk poses a negligible threat, as only 2.0% of total debt at end March 2013 was indexed to the domestic Consumer Price Index (CPI).

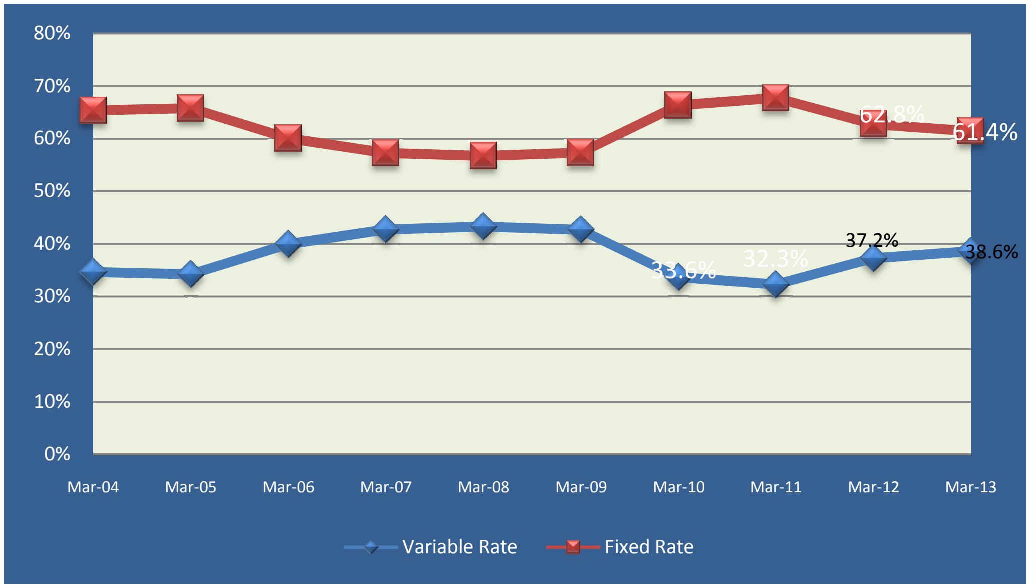
Interest Rate Risk refers to the susceptibility of the debt portfolio to higher market interest rates. Volatility in interest rates may cause rates on existing variable-rate debt and fixed-rate debt that matures and is being refinanced to reset at higher interest rates. The effect of interest rate risk on the public debt stock may be mitigated through prudent portfolio management, such as reduction in the variable-rate portion of the debt.

During FY 2012/13 the Government had planned to issue 60 %fixed-rate debt in the domestic portfolio while keeping the proportion in the external portfolio constant during FY 2012/13. The aim was to increase the fixed-rate debt in the overall portfolio above 62.8%, which was the outturn at end March 2012. This however was not achieved due to uncertainty in the domestic market and local investors having a preference for variable-rate. In FY 2013/14, the Government plans to raise 75% and 70% fixed-rate debt in the domestic and external markets, respectively. The aim over the medium term is to maintain the proportion of fixed-rate debt in the portfolio within the band of 65%-70%. This structure is predicated on increasing the proportion of fixed-rate domestic debt while not allowing the proportion of fixed-rate external debt to fall below 65 %.

The proportion of variable-rate debt is an indicator of the level of interest rate risk inherent in the portfolio. Therefore the debt strategy places priority on the issuance of a larger proportion of fixed-rate instruments in the domestic and external market to help mitigate interest rate risk. As depicted in Chart 16, a greater share of external debt is contracted on a fixed-rate basis. While the same is true for domestic debt, the proportion of fixed-rate debt is smaller relative to the external debt.

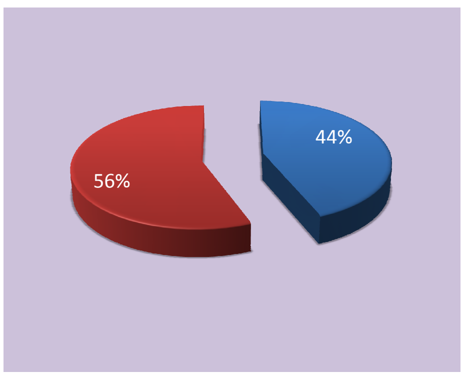
Although one of the objectives of the Government is to safeguard the debt portfolio against interest rate risks, cost minimisation is also a priority. Thus the Government aims to take full advantage of the prevailing relative low interest rates by issuing more fixed-rate debt relative to variable-rate debt. However, steps will be taken to gradually reduce variable-rate debt. The portfolio benefits from lower costs when interest rates fall due to variable-rate debt resetting at the reduced rates. Therefore the government aims to balance the interest rate composition of the portfolio to take advantage of declining rates.

Chart 16: Variable- and Fixed-rate Debt as a Proportion of Total Debt



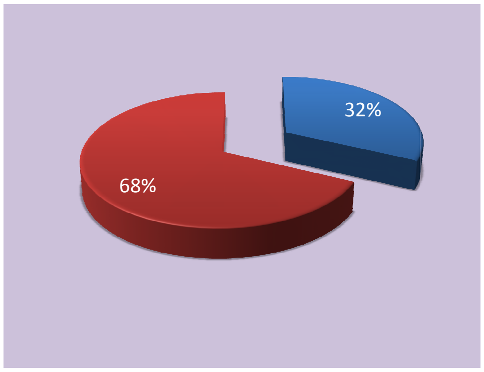
Source: Ministry of Finance and Planning

Chart 17: Domestic Interest Rate Composition at end March 2013



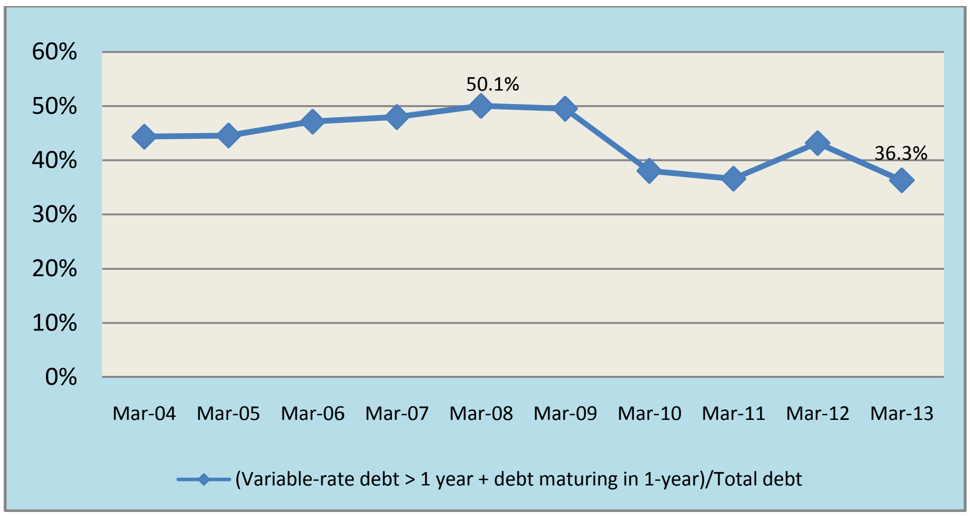
Source: Ministry of Finance and Planning

Chart 18: External Debt Interest Rate Composition at end March 2013



Source: Ministry of Finance and Planning

Chart 19: Debt Maturing in 1-year + Variable-rate Debt >1-year as a %age of Total Debt

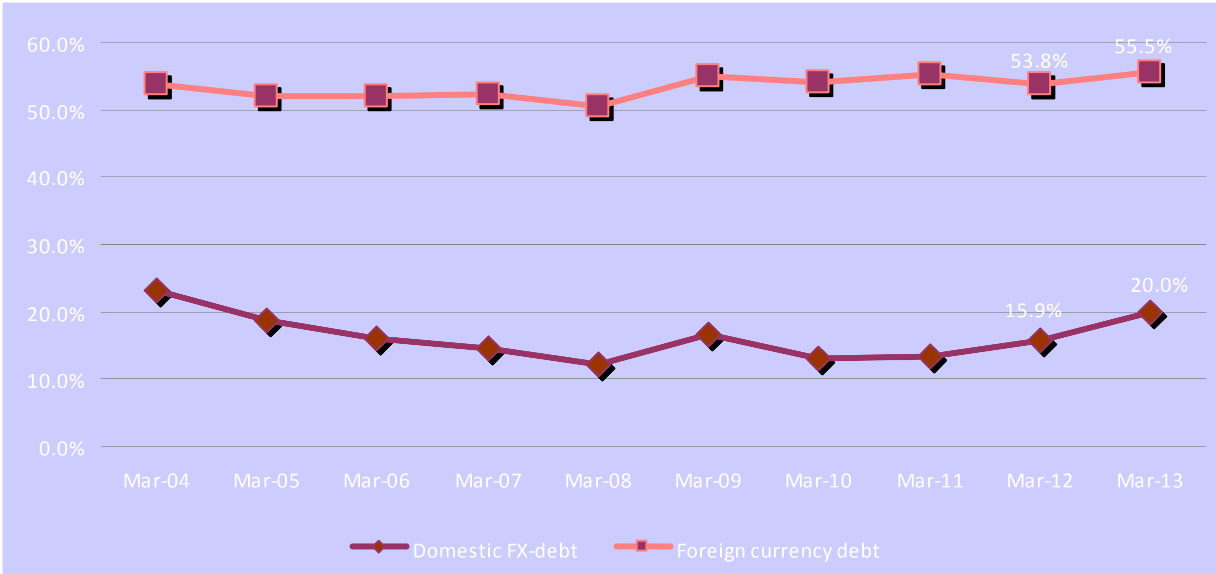


Source: Ministry of Finance and Planning

A conservative but useful estimate of the interest rate risk in the debt portfolio is shown above in

Chart 19. It highlights the proportion of total debt that will reset within a year. This is a combination of the debt maturing within one year plus the proportion of variable interest rate debt that matures in more than one year. Starting in 2004, the ratio was at its lowest at just about 40%; however, it increased sharply and peaked at 82.6% at end March 2009 prior to the JDX. Subsequently the ratio has declined to 64.2%. The change is due mainly to both the JDX and the NDX, which helped to reduce interest rate risk by reducing the share of floating-rate debt in the portfolio.

Chart 20: Foreign Currency Domestic Debt and Overall Foreign Currency Debt



Source: Ministry of Finance and Planning

Foreign Exchange Risk highlights the potential increase in the debt stock and/or debt servicing costs arising from adverse movements in foreign exchange rates among currencies represented in the portfolio. The degree of exchange rate exposure depends on the proportion of the debt stock that is denominated in foreign-currency. The potential negative impact of foreign exchange risk may be mitigated through proper management of the amount of foreign debt held in the portfolio.

The strategy outlined in the last MTDS was to maintain foreign exchange risk at a manageable level. Foreign currency debt at end March 2013 increased to 55.7% of total debt, up from 53.9% at end March 2012. This poses significant risk to the portfolio as a 1 % depreciation in the domestic currency increases the debt stock by 0.5 %. The debt stock increased by $150.3 billion or 9.0% at end March 2013 relative to end March 2012, of which approximately $118.7 billion or 7.1% was attributable to exchange rate movement. Increase in the share of foreign currency debt is also attributable to increase in the share of domestic foreign currency denominated debt which increased over the comparable period from 8.7% to 11.1% of total stock of debt. Contributing to the increase in foreign currency denominated domestic debt was the higher utilisation of funding from the PetroCaribe Development Fund, which increased by approximately 48.9% in FY 2012/13.

The Government intends to reduce the share of foreign currency exposure in the debt portfolio over the medium-term. Consequently, the proportion of foreign currency denominated loans in the domestic portfolio relative to total stock of debt will be reduced from 11.5% to 10.0% and the proportion of overall foreign currency debt will be reduced from 55.5% to 53.0% over the medium term.

However, this fiscal year the Government intends to contract a greater share of its cash requirements in foreign currency debt from external and domestic sources. It is anticipated therefore that the share of foreign currency debt in the domestic and total portfolio will increase by at least 1.0 % to 12.5% and 56.5%, respectively.

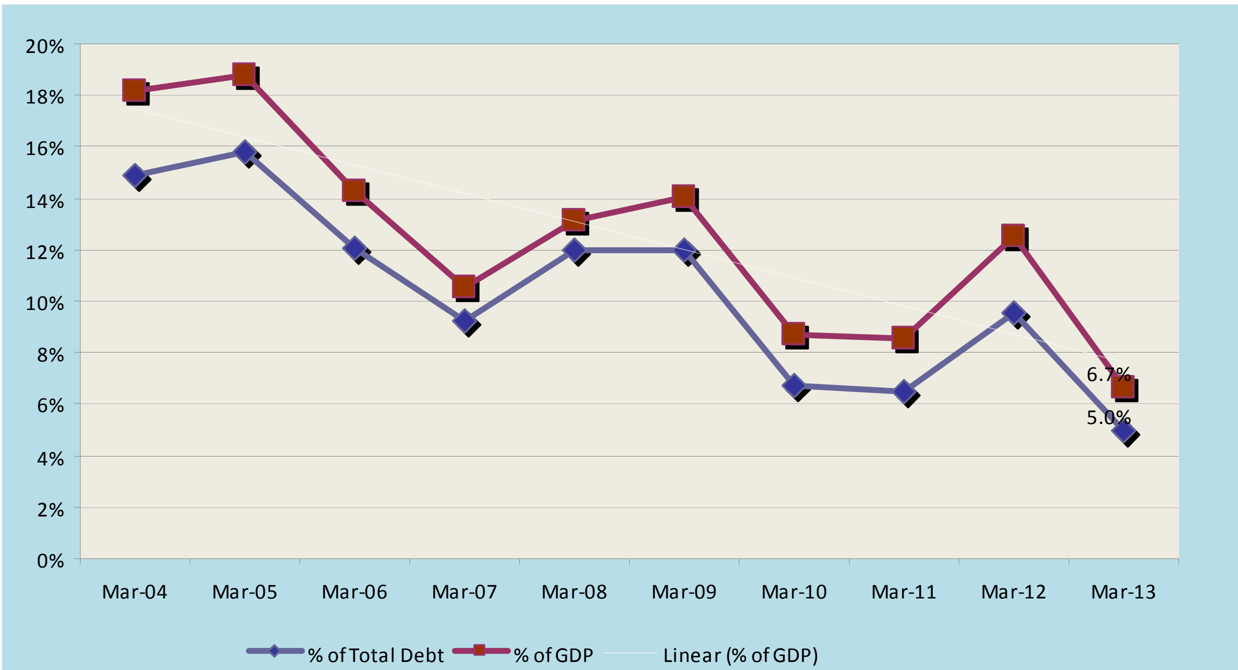
The share of debt denominated in foreign currency has remained above 50 % over the last decade (See Chart 20) due to high levels of external financing, the realization of foreign currency contingent liabilities foreign currency debt contracted in the domestic market continued depreciation of the Jamaica dollar. Given funding constraints in the domestic market, the Government also sourced external financing from official creditors and from private creditors in particular the international capital market (ICM).

While noting the risk that foreign currency debt poses to the portfolio, funding costs from official creditors are often lower than domestic loans with similar tenors. Loans from official sources are often contracted on more concessional terms than domestic loans, .i.e., lower interest rates and longer maturities.

Refinancing Risk

Refinancing risk is the probability that the Government will experience difficulties rolling-over maturities. The most common measure used to assess refinancing risk is the proportion of debt that becomes due within 1year, or the concentration of debt that falls due within a specified time period. High levels of maturities in any one period could result in increased costs as a result of unfavourable changes in interest rates on re-fixed debt, and bunching could cause fiscal stress due to the high levels of financing required in a short period. Over the last 10 years, the Government has taken steps to mitigate this risk by smoothing and lengthening the maturity profile of the portfolio, in particular the domestic debt. These were major objectives of the JDX and NDX which both extended the maturity profile by 3 and 5 years, respectively.

Chart 21: Debt Maturing in 1-year as a %age of GDP and Total debt



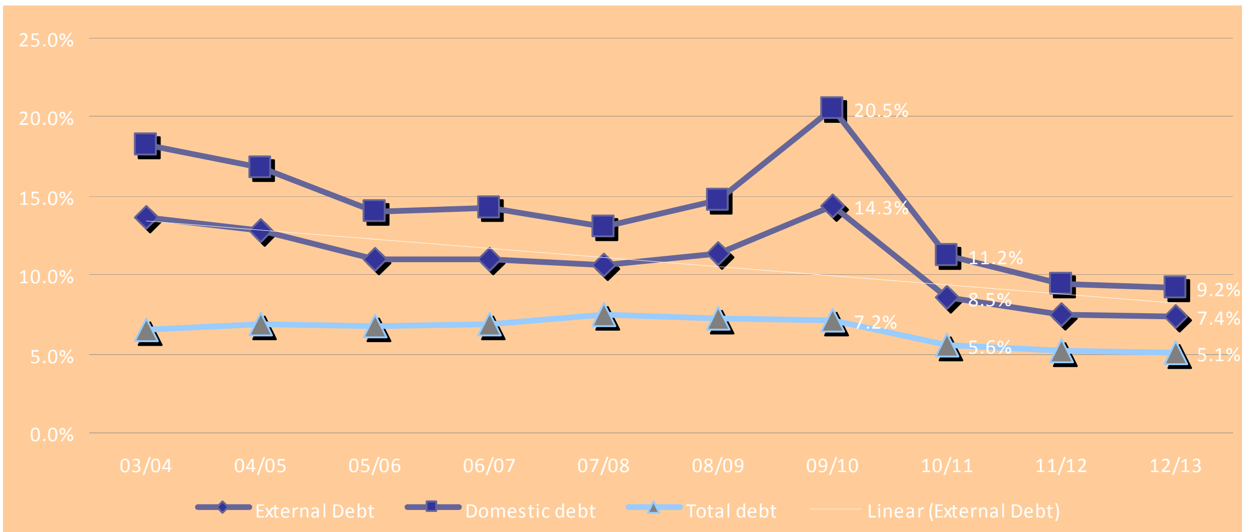
Source: Ministry of Finance and Planning

The strategy in FY 2012/13 to mitigate refinancing risk was to issue debt with maturities greater than 1-year along various points on the domestic and external yield curves with average time to maturity (ATM) greater than 8 years. It also entailed keeping the debt maturing in FY 2013/14 to 7.5% of total debt.

Although there were deviations from the financing programme, the plan to mitigate refinancing risk was met as debt contracted had an ATM of more than 8 years. The NDX also extended the ATM of the domestic debt by more than 8 years, and the proportion of debt falling due in FY 2013/14 to 5% of total debt. Chart 21 shows that refinancing risk, as measured by the proportion of debt falling due in 1 year relative to total debt and GDP, has trended downwards.

The strategy underpinning mitigating refinancing risk in the portfolio is to keep the proportion of debt maturing in FY 2014/15 to less than 9% of total debt. In addition, the ATM will be maintained above 9 years.

Chart 22: Average Cost on Domestic, Foreign and Total Debt



Source: Ministry of Finance and Planning

Two of the strategies outlined in the MTDS, i.e. increasing the share of fixed-rate debt in the portfolio and cost minimisation, are diametrically opposed to each other. Fixed-rate debt contracted over longer periods tends to have higher cost than short-term variable-rate debt whose cost tends to fluctuate around short-term yields. A high proportion of fixed-rate debt in the portfolio can mitigate interest rate volatility and assists with cost minimisation. However, if interest rates decline there is no benefit to gain from holding high fixed-rate debt. The MTDS is therefore designed to maintain an appropriate balance in the composition of debt instruments in the portfolio in order to minimise interest costs at an acceptable level of risk.

The Government had programmed to keep the average cost of the debt below 7.5 %. This target was met, as the average cost of financing for FY 2012/13 was 7.4 %. The target was met because average yields on GOJ Treasury bills were relatively stable and LIBOR declined marginally. The average yields on GOJ Treasury Bills and LIBOR are used to re-price variable-rate debt in the portfolio.

Average interest cost in the total debt portfolio has trended downwards over the last 3 years and should continue to fall over the medium-term, especially on domestic debt as confidence is restored in the domestic economy. An IMF agreement and the Government's continued commitment to sound fiscal practice are central pillars to restoring confidence in the local economy. Average yields on GOJ Treasury bills declined on average by approximately 120 bps subsequent to the NDX. It is anticipated that these rates will remain relatively low over the medium-term given the level of fiscal consolidation and continued co-ordination of monetary and fiscal policies. In the external markets, LIBOR has trended downwards over the last 5years and is not anticipated to return to pre-2007 levels over medium term.

Debt Profile Summary at end March 2013

The stock of debt increased from $1,662.3 billion or 128.0% at end March 2012 to $1,812.6 billion or 134.1% of GDP at end March 2013. This represents a change of $150.4 billion or 9.0%. Depreciation of the domestic currency accounted for approximately $72.0 billion or 45.6% of the change, while the remaining portion was due to a net increase in loan receipts.

Domestic Debt

At end March 2013 the stock of domestic debt amounted to $1,008.3 billion or 74.6% of GDP. This represented an increase of 10.5% over the similar period last year. The total holdings of bonds amounted to $892.0 million or 49.2% of the total debt stock. Loans amounted to $112.4 billion or 6.2% of the debt stock while Treasury bills amounted to $4.0 billion, or 0.2% of the debt stock.

External Debt

At end March 2013 the stock of external debt amounted to $804.3 billion or 59.5% of GDP. This represented an increase of 7.3% over the similar period last year. The total holdings of bonds amounted to $361.3 billion or 19.9% of the total debt stock. Bilateral and multilateral creditors amounted to $79.3 billion and $318.9 billion or 4.41% and 17.6% of the total stock of debt, respectively. Private creditors amounted to $44.8 billion, or 2.5% of the total stock of debt.

Table 19: Total debt at end March 2013

Domestic loans	J$ Billions	% total debt
Total loan portfolio	1,812.6	100.0
Total domestic loans	1,008.3	55.6
Marketable Securities		
Bonds	892.0	49.2
Treasury bills	4.0	0.2
Non-Marketable Securities		
Loans	112.4	6.2
Total external loans	804.3	44.4
Marketable Securities		
Bonds	361.3	19.9
non-Marketable Securities		
Bilateral	79.3	4.4
Multilateral		
IMF	82.5	4.6
IDB	124.1	6.8
IBRD	63.9	3.5
Other	48.4	2.7
Private creditors	44.8	2.5

Source: Ministry of Finance and Planning

Economic overview

The medium-term macroeconomic profile outlined in

Table 20depicts the key macroeconomic assumptions that will inform the development of the estimates of revenue and expenditure, and, by extension, the debt trajectory over the medium term (FY 2012/13 – FY 2015/16). Changes in fiscal policy tend to impact economic variables. For instance, any tax policy changes adopted over the medium term could impact inflation, real economic activities, interest and exchange rates, as well as other economic variables[12]. Increases (decreases) in tax rates or tax bases for example could lead to higher (lower) inflation which could then have spill-over effects on other economic variables such as growth, exchange rate and interest rates.

[12] See Fiscal Policy Paper Mid-Year Review 2012/13.

Following the sharp upfront fiscal adjustment (3% of GDP) in FY 2012/13 budget, coupled with investor uncertainty surrounding the timing of a new economic programme with the IMF, the domestic economy is expected to have contracted by approximately 0.4% in FY 2012/13, this compares to the 0.9% expansion in FY 2011/12. Growth, however, is expected to recover in subsequent years, with forecasts of 0.8%, 1.4% and 1.8% for FY 2013/14, FY 2014/15 and FY 2015/16, respectively.

Inflation for FY 2012/13 was 9.1%. The inflation rate is projected to peak at 10.2% in FY 2013/14 then decline gradually to 8.2% by FY 2015/16.

Table 20: Medium-term Macroeconomic Profile

	Fiscal Years					
Macroeconomic Variables	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
	Actual	**Actual**	**Est.**	**Proj.**	**Proj.**	**Proj.**
Nominal GDP (J$ billion)	1,171.9	1,263.3	1,352.0	1,492.0	1,659.0	1,845.0
Nominal GDP growth rate (%)	7.3	7.8	7.0	10.4	11.2	11.2
Real GDP growth rate (%)	-0.7	0.9	-0.4	0.8	1.4	1.8
Inflation: Annual Pt to Pt (%)	7.8	7.3	9.1	10.2	9.2	8.8
Interest Rates:						
30-day repo rate (eop)	6.75	6.75	5.25			
180-day repo rate (avg) Discontinued	NA	NA	NA			
180-day Treasury Bill (avg)	6.63	6.47	6.22			
Avg. Exch. Rate (J$=US$1.00)	86.51	86.37	91.16			
Oil Prices (WTI) (avg. US$/barrel)	83.4	97.3	91.8	95.1	95.7	95.7

Source: GOJ/BOJ

Risk Factors to the Debt Strategy

Analysis undertaken in developing the MTDS is underpinned by the assumption that the Government will adhere to its articulated medium-term fiscal policy. In addition, continued stable macroeconomic fundamentals, such as interest and exchange rates, are critical to the analysis undertaken. Depreciation in the exchange rate by 10% would increase the debt stock by approximately 5% while increase in interest rate by 1 % would increase debt serving cost by approximately $6.0 billion or 0.4% of GDP. The underlying assumptions in the macroeconomic projections will shape the fiscal path and by extension, the dynamics of the debt over the medium-term. Therefore, any negative deviation in the macroeconomic fundamentals over the period could have an adverse effect on the debt trajectory.

The following are the potential risks to the macro economic framework:

- Revenue growth rising at a slower pace than anticipated;
- Non-realization of planned loan inflows from the multilaterals, which may result in the Government borrowing more from the domestic market;
- Exogenous shocks including natural disasters which could cause fiscal slippage;
- Increases in commodity prices that could drive the domestic inflation rate upwards;
- Sustained reduction in net international reserves (NIR) occasioned by accelerated deterioration in international trade balances; and
- Higher than anticipated depreciation of the local currency vis-à-vis the major international currencies.

Financing and Macroeconomic Assumptions

The macroeconomic environment will be the main driver of economic growth, fiscal operations and by extension the level of debt that the government will contract to fund its activities. The demand for Government debt is in part a function of these inter-connected variables. Thus, the

Medium-term Debt Strategy is framed within the context of assumptions about the domestic economy and financial markets, which are the foundation on which the successful execution of the strategy relies.

Financing Assumptions

External sources

The programme anticipates that external loans will be contracted from:

- Multilateral and bilateral sources; and
- International Capital Markets.

Domestic Sources

The Government will issue/reopen a range of instruments along different segments of the domestic yield curve to satisfy budgetary requirements in addition to meeting investors' needs. Market based securities that will be issued are geared towards financing the budget at minimum cost while limiting risk exposures in the portfolio. These securities will also serve to assist the government with further development of the domestic capital market through increasing liquidity levels in various instruments to facilitate secondary market trading. Funding will be sourced from the:

- Domestic capital markets; and
- PetroCaribe Development Fund.

Medium-Term Debt Management Strategy FY 2013/14 - FY 2015/16

Four strategies were assessed and analyzed to determine the strategic path that the Government should take with respect to debt operations over the medium-term. The debt portfolio was subjected to exogenous shocks and the impact of these shocks was evaluated based on cost/risk analysis in order to select the most appropriate strategy**.**

The Medium-Term Debt Strategy model developed jointly by the IMF and the Word Bank was used to assess the impact of market risks on the debt portfolio. This assessment informs the selection of a debt strategy.

The stock of debt used in the model does not include debt owed to the IMF or government guarantees. The model has limitations regarding the amount of loans that can be used to determine the debt trajectory over the medium-term. Consequently, the debt stock was aggregated into thirteen (13) stylized instruments to represent the portfolio. All the foreign currency loans in the domestic debt portfolio were removed and added to the foreign debt. As part of the foreign debt aggregation, the loans were treated as either market or concessionary based on tenors and coupon/interest rates. This accounted for 20.0% of the domestic debt or 11.1% of the entire portfolio.

Strategy 1: A mix of 80% variable and 20% fixed-rate instruments in the domestic portfolio

This strategy follows the current debt management practice of refinancing all maturing external bonds with debt from external sources.

The securities to be issued in the domestic market consist of a mix of fixed- and variable-rate bonds and a minimal amount of CPI-Indexed Bonds. Instruments will be issued along all segments of the yield curve with greater emphasis on the short-end. The Government will seek to create liquidity buffers to mitigate the risk to the cash flow.

There are inherent risks associated with this strategy, in particular market, refinancing, and demand side risks. The upside to this strategy, however, is that it will diversify the investor base in both domestic and foreign debt, and lend support to the Government's strategy of realigning the debt portfolio over the medium-term.

This strategy lends support to the objective of improving and enhancing the development of the secondary market, through the reopening of benchmark bonds via the auction mechanism and to facilitate price discovery.

Strategy II: Issuance of equal proportion of fixed and variable-rate bonds in the domestic debt portfolio

The only variation between strategy II and strategy I is that strategy II employs an equal proportion of new issuance of variable and fixed-rate bonds in the domestic market over the medium-term. It is assumed that conditions in the market will not be conducive for the Government to explore the option of issuing a high proportion of fixed-rate instruments over the medium-term. The Government recognizes that investors may be reluctant to purchase fixed-rate securities over the medium-term if their outlook on the domestic economy is cautious.

Strategy III: More Long-term Fixed-rate Debt

This strategy option allows for variable-rate domestic debt to be replaced by longer term fixed-rate instruments. The objective is to lengthen the maturity profile of the debt and take advantage of the relatively low interest rate that currently prevails in the domestic market. Although the Government endeavours to maintain macroeconomic stability and facilitate economic growth through prudent fiscal management, it is possible that exogenous shocks could occur which would have an adverse effect on the current interest rate trajectory and debt service costs. This strategy is geared towards mitigating the impact of increased debt servicing costs resulting from higher domestic interest rates.

Strategy IV: More Domestic Financing from Short-term Variable-rate Instruments, No Access to International Capital Market, and Minimal Multilateral and Bilateral Financing

This strategy assumes that the country is unable to access funding from the international capital markets with limited funds available from multilateral and bilateral institutions. It assumes deterioration in the country's macroeconomic profile where investors hold short positions and are unwilling to hold long-term fixed-rate Government securities. This strategy assumes that the majority of debt contracted in the domestic market is on a short- term variable-rate basis, which would have higher short term interest costs and higher refinancing risk.

SCENARIOS

The Borrowing strategies were subjected to stress testing under four (4) scenarios:

- Scenario 1: **C*ountry specific depreciation of the Jamaica dollar***. Under this scenario in FY 2014/15 the Jamaica dollar depreciates by 1 standard deviation[13], or 21.03% relative to the US dollar. This is a permanent shock.

[13]The annual standard deviation for the depreciation of the Jamaica dollar over a 20 year period from FY1993/1994 - FY 2012/13 is 21.1%.

- Scenario 2: ***Parallel Shift in domestic yield curves***. The cost of all market-based domestic borrowing increases by 600[14] basis points. This is done to realign rates with what they were prior to FY2009/10.

- Scenario 3: ***Parallel Shift in US Treasury yield curve***. The cost of all external market-based borrowing increases in all years by 200 basis points, which is permanent.

- Scenario 4: ***This is a combination shock.*** In this scenario the Jamaica dollar depreciates by 10.1% relative to the US dollar, domestic interest rates increase by 300 basis points and international interest rates increase by 100 basis points

Table 21 summarizes the objectives underpinning the four (4) strategies, the rationale for their implementation and the trade-off inherent in each alternative strategy.

[14] Prior to the JDX interest rates on domestic debt averaged 18% per annum.

Selection of a Debt Strategy

Table 21: Debt Strategy Options and Cost-risk Trade-off

	Strategy I	Strategy II	Strategy III	Strategy IV
External Issuance	US$867million from official sources in year 1. In years 2 and 3, external commercial loans will be contracted to cover external amortization and official loans contracted to fund capital projects			Only Multilateral loans to fund infrastructural projects
Domestic Market Issuance	Portfolio comprises 80%variable-rate instruments issued along the short-end of the yield curve	Portfolio comprises 50% variable- and fixed-rate instruments issued along all segments of the yield curve	Portfolio comprises mostly fixed-rate domestic instruments issued along the longer end of the yield curve	No access to external capital market. Domestic bonds issued to fund external maturities. Mostly variable-rate instruments with tenor less than 10 years
Benefits	Lower interest costs	Reduced interest rate and rollover/liquidity risk	Reduced interest rate and rollover/liquidity risk	Reduced FOREX risk
Trade-off	Higher interest rate, refinancing and FOREX risks	Higher FOREX risk	Higher debt service cost and FOREX risk	Higher debt service Cost

Source: Ministry of Finance and Planning

Implementation Methodology

Selection of a Debt Strategy

Following stress-testing of the alternative strategies, ***Strategy III*** was selected as the option to be pursued over the medium-term. In light of the present market conditions, the Government believes that this strategy is consistent with its overall macroeconomic objective which, *inter alia,* aims to reduce debt service costs and debt as a percentage of GDP as outlined in the FY 2013/14 Fiscal Policy Paper.

At end March 2016, as depicted in Table 22, all the strategies have an interest-cost to-GDP ratio of approximately 6.4%. However, **Strategy I** has the highest interest rate risk factor of approximately 1.9% of GDP. This is followed by **Strategies IV** and **III**. **Strategy I** has the lowest interest cost risk of approximately 1.8% of GDP.

Strategy I has the highest proportion of debt re-fixing in 1 year at 32.6% while ***Strategy II*** is ranked the lowest with 27.1%. ***Strategy I*** has the highest Average Time to Maturity (ATM)[15] of 10.1 years. This is followed by ***Strategy II*** and ***Strategy IV*** at 10.0 and 9.8 years, respectively. **Strategy III** ranks lowest in this category with ATM of 9.7 years.

The projected outturn for the debt to GDP[16] ratio at end March 2016 for **Strategies I, II** and **III** is all the same at 92.1% while the ratio is marginally lower for **Strategy IV** at 91.9%.

Although the evidence indicates that some of the other strategies have relatively better indicators (such as ATM and ATR) than **Strategy III**, the reality of market demand and current economic conditions ranks this strategy above the others. The Government recognizes the demand-side risk for its menu of instruments. However, given the feedback provided by market players and other stakeholders, it is strongly considered that this strategy is optimal given the prevailing market conditions.

[15] Average Time to Maturity, also known as Average Residual Life, gives information on the length of the debt's life, i.e. average residual maturity.

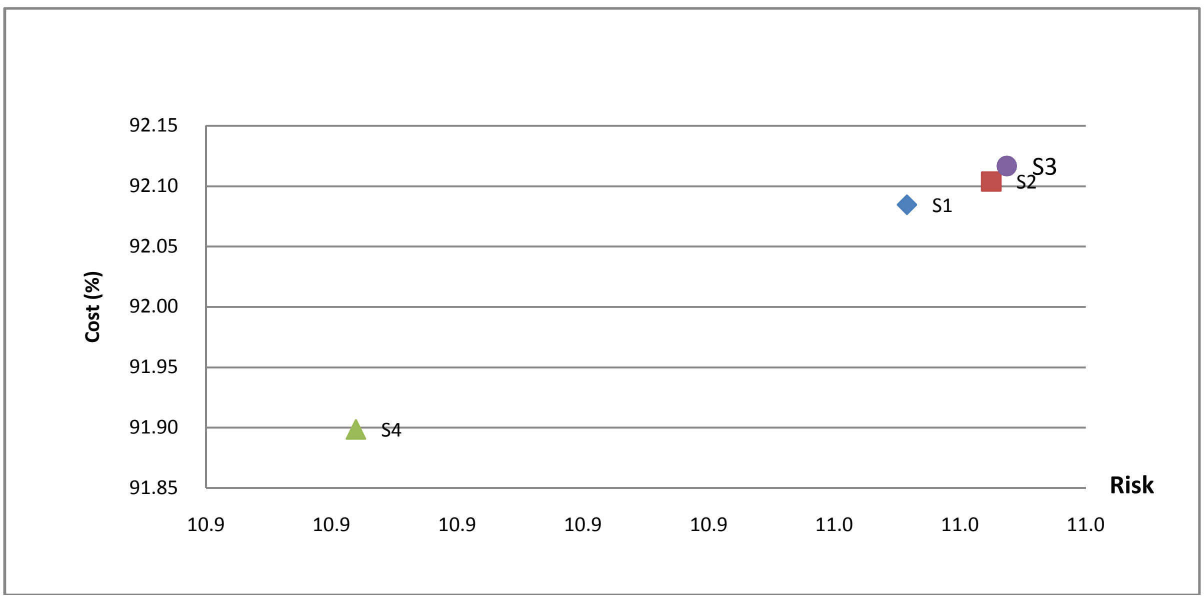
[16] The total debt stock used in this exercise does not include contingent and IMF loans.

Table 22: Risk Indicators at end March 2013

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of USD)		6,835.20	8,420.90	15,256.10
Nominal debt as % GDP		50	61.6	111.6
Cost of debt	Weighted Av. IR (%)	6	7.6	6.9
Refinancing risk	ATM (years)	9	11.2	10.2
	Debt maturing in 1yr (% of total)	6.6	2.4	4.3
Interest rate risk	ATR (years)	7.3	7.2	7.3
	Debt refixing in 1yr (% of total)	24.4	42.5	34.4
	Fixed-rate debt (% of total)	80.4	60	69.1
FX risk	FX debt (% of total debt)			44.8
	ST FX debt (% of reserves)			50.9

Source: Ministry of Finance and Planning

Table 23: Debt to GDP Ratio at end March 2016



Source: Ministry of Finance and Planning

Table 24: Cost and Risk Indicators at end March 2016

Risk Indicators		End March 2013	End March 2016			
		Current	S1	S2	S3	S4
Nominal debt as % of GDP		111.6	92.1	92.1	92.1	91.9
PV as % of GDP		108.8	83.9	82.7	83.2	86.8
Implied interest rate (%)		6.9	7.1	7.1	7.1	7.2
Refinancing risk	ATM External Portfolio (years)	9.0	10.0	10.1	9.9	9.3
	ATM Domestic Portfolio (years)	11.2	10.3	9.8	9.3	10.5
	ATM Total Portfolio (years)	10.2	10.1	10.0	9.7	9.8
Interest rate risk	ATR (years)	7.3	7.1	8.4	8.1	7.6
	Debt refixing in 1yr (% of total)	34.4	32.6	27.1	28.4	31.1
	Fixed-rate debt (% of total)	69.1	68.7	74.1	73.1	70.4
FX risk	FX debt as % of total	44.8	60.9	60.9	60.9	53.3
	ST FX debt as % of reserves	50.9	13.6	13.6	13.6	13.6

Source: Ministry of Finance and Planning

ANNUAL BORROWING PLAN

The Annual Borrowing Plan (ABP) is developed within the context of the Debt Management Strategy, the Estimates of Expenditure and the Financial Statements and Revenue Estimates, for FY 2013/14. The plan provides an opportunity for prospective investors in GOJ securities to adjust their portfolios in advance, to successfully participate in the issuances. The borrowing requirement for the year is projected at $103,279.5Million.

Table 25: Borrowing Requirements

TENDER DATE	INSTRUMENT TYPE
April 17, 2013	1-month Treasury Bill Tender
April 24, 2013	3-month Treasury Bill Tender
April 24, 2013	6-month Treasury Bill Tender
May 1-3, 2013	New Issue FR Benchmark Note – Due 2018
May 15, 2013	1-month Treasury Bill Tender
May 22, 2013	3-month Treasury Bill Tender
May 22, 2013	6-month Treasury Bill Tender
May 20-22, 2013	Reopen FR Benchmark Note – Due 2018
June 5-7, 2013	New Issue FR Benchmark Note Due 2021
June 19, 2013	1-month Treasury Bill Tender
June 19, 2013	3-month Treasury Bill Tender
June 19, 2013	6-month Treasury Bill Tender
June 26-28, 2013	Reopen FR Benchmark Note – Due 2021

Source: Ministry of Finance and Planning

Additional schedules will be published for rest of the fiscal year. It is envisaged that the domestic borrowing requirement of $13,134.1 million for FY 2013/14 will be met from issuances indicated in the schedules.

Adoption of Other Measures

In addition to the issuance strategy outlined above, The Ministry of Finance is working closely with the Bank of Jamaica (BOJ) and the Jamaica Stock Exchange (JSE) to develop a trading platform that would allow brokers to trade Government bonds more easily. Among other things, the issuance strategy will be guided by the creation of adequate levels of liquidity in external and domestic bonds to facilitate secondary trading.

The Ministry will coordinate with the BOJ to streamline and make more efficient the dealer system this fiscal year, with a view to enhance the role that they play in developing the market for government securities.

Expected Outcome

The MTDS is designed with specific quantitative outcomes in the debt portfolio. The expected outcomes are within specified bands as the specific outcome of macroeconomic economic variables that impact market conditions. The bands of intended outcomes will provide the Government with some flexibility to operate in the event that there are unexpected changes in macroeconomic and market conditions.

With this in mind, the following are a set of desired quantitative outcomes that are expected:

Table 26: Debt Indicator Outcomes in FY 2012/13 and Projections for FY 2013/14

Indicators	**FY 2012/13**	**Limits for FY2013/14**	
		Minimum	Maximum
Stock of Debt (J$ million)	1,820,784.2	1,876,761.1	1,900,000.0
Profile (%)			
Domestic Debt:			
Fixed-rate	66.2	65.0	68.0
Floating rate	33.8	32.0	35.0
Inflation linked-debt	2.0	-	2.0
Proportion of foreign $ debt	19.6	20.0	22.0
External debt			
Fixed-rate	68.1	65.0	75.0
Floating rate	31.9	30.0	35.0
Cost Structure			
Average Cost (Total):	7.4	7.0	7.8
Domestic	9.2	8.0	9.0
External	5.1	5.0	5.8
Maturity structure			
Average Maturity (years)	8.4	8.2	8.7
% Maturing in 1 year	5.8	-	8.0

Source: Ministry of Finance and Planning

GLOSSARY

Amortization

Amortization refers to principal repayments on loans. These repayments reduce the borrowed money by portions, which are usually fixed amounts expressed as a percentage of the whole. Most of the domestic debt has a bullet repayment - the entire principal is repaid at maturity rather than gradually over the term of the loan.

Auction

An auction is a system by which securities are bought and sold on a competitive bidding process. The auctions are conducted on a multiple-price-bidding basis, which means that the successful investor will receive stocks at the price he bids.

Benchmark Issues

Issues of securities that are sufficiently large and actively traded, such that their prices serve as reference for other issues of similar maturities.

Contingent Liabilities

The potential obligations of the Government, as guarantor, having provided a form of security to the lender for a loan or credit facility on behalf of a public sector entity.

Debt Service Payments

Debt service payments cover interest charges on a loan. Some sources also include amortization under debt service payments. These payments liquidate the accrued interest (and loan obligations if amortization is included).

EMBI

The JP Morgan Emerging Markets Bond Index (EMBI) is a benchmark index for measuring the total return performance of international government bonds issued by emerging market countries. Inclusion in the index requires that the debt be more than one year to maturity, have more than

$500 million outstanding, and meet stringent trading guidelines to ensure that pricing inefficiencies don't affect the index.

Eurobond

A bond underwritten by international investors and sold in countries other than the country of the currency in which the issue is denominated. Jamaica issued a five-year, US$200million Eurobond in July 1997, its first ever constitution. These expenditures are regarded as statutory obligations and therefore do not require prior approval of Parliament; for example, debt servicing, pension payments and the salaries of certain public officers such as the Auditor General and Judges of the Court of Appeal.

Fiscal Responsibility Framework (FRF)

The FRF is a tool used by several countries that require Government to act in a fiscally transparent and prudent manner. The institution of a FRF in Jamaica required the enactment of legislation. Rather than introducing new legislation, in March 2010, the FRF was appropriately integrated into the Financial Administration and Audit (FAA) Act as a new Part, while the Public Bodies Management and Accountability (PBMA) Act was amended to ensure consistency with the FRF. The FRF is the centrepiece of a series of reforms being undertaken to improve the management of public finances. Jamaica's FRF establishes quantitative ceilings on the Debt Stock (100%), Fiscal Balance (0%) and Wages (9%), in proportion to GDP, by March 2016.

Inflation-Indexed Bonds

Inflation-Indexed bonds are securities with the principal linked to the Consumer Price Index. The principal changes with inflation, guaranteeing the investor that the real purchasing power of the investment will keep pace with the rate of inflation. Although deflation can cause the principal to decline, at maturity the investor will receive the higher of the inflation-adjusted principal or the principal amount of the bonds on the date of the original issue.

Par

Par is the nominal or face value of a security. A bond being issued at par, for example at $100, is worth the same $100 at maturity.

Project Loan

The term refers to loans, which fund capital development activities. The term capital refers to lasting systems, institutions and physical structures. Project loans are typically funded from foreign sources by bilateral/multilateral institutions.

Public Debt Charges / Public Debt

Public debt refers to the loan obligations of Central Government. The obligations of Government entities are also included if such entities are unable to meet their obligations. The entities, however, are then indebted to the Central Government. Public debt charges are interest payments on the loan obligations and include related incidental expenses such as service fees, late payment penalties and commitment fees.

Schedule B/Shelf Registration Statement

A facility with the US Securities Exchange Commission, which allows for the registration of securities intended to be issued in the future.

Sovereign Rating

A sovereign rating is an assessment of the default risk for medium and/or long-term debt obligations issued by a national Government (denominated in foreign currency), either in its own name or with its guarantee. Ratings are produced by independent agencies (Moody's Investors Service, Standard & Poors and others). The ratings provide a guide for investment risk to capital market investors.

Treasury Bill

Treasury Bills are instruments designed to provide Government with short-term financing to meet temporary cash needs arising from fluctuations in cash revenue. Treasury Bills are no longer limited in use to this strict interpretation. They are now being used by Government as a tool in its open market operations for liquidity management.

Yield Curve

A line graph showing the interest rates at specific points in time by plotting the yields of all securities with the same risk but with maturities ranging from the shortest to the longest available. The resulting curve shows if short-term interest rates are higher or lower than long-term interest rates.